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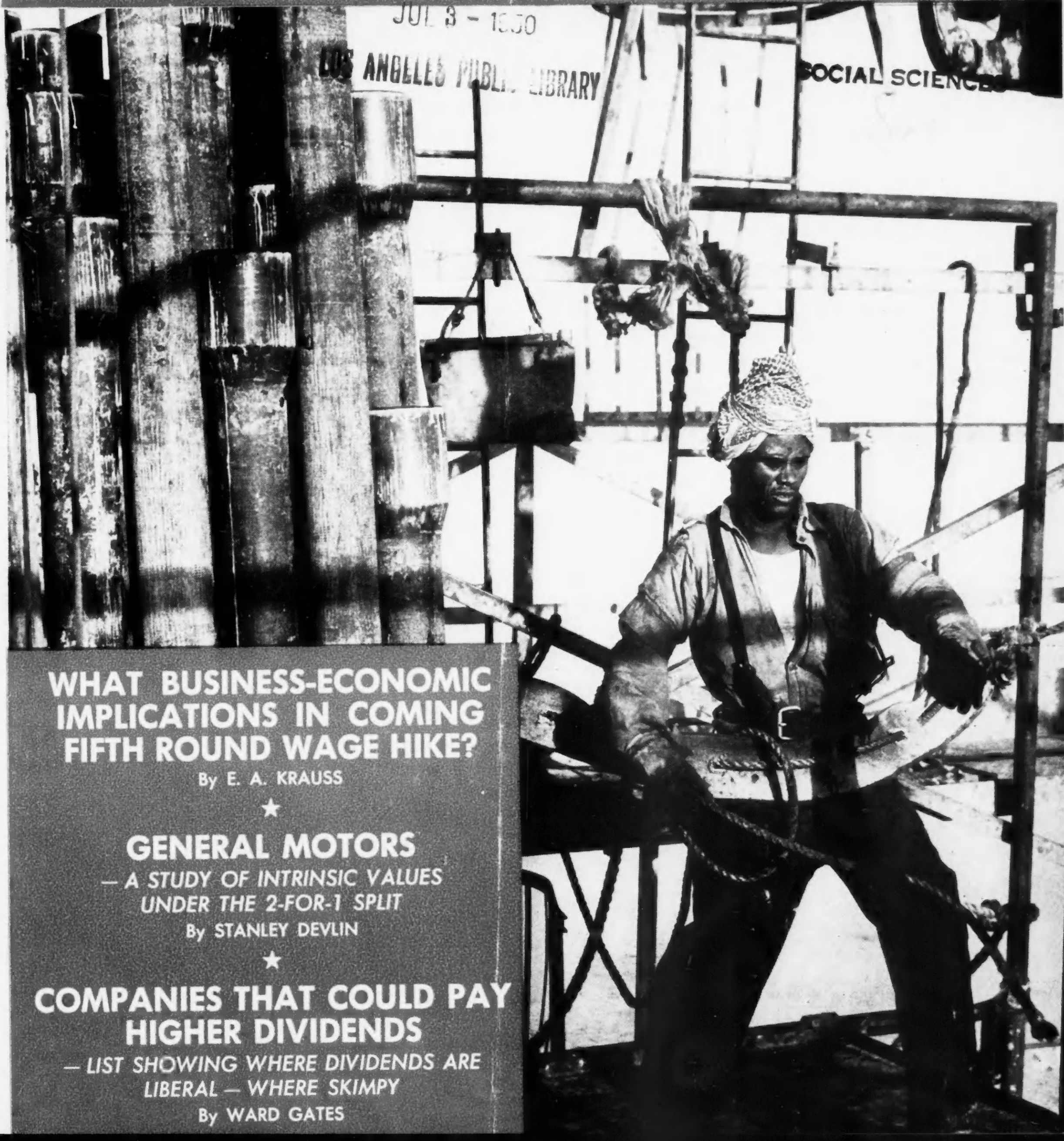

WHAT BUSINESS-ECONOMIC IMPLICATIONS IN COMING FIFTH ROUND WAGE HIKE?
By E. A. KRAUSS

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GENERAL MOTORS
— A STUDY OF INTRINSIC VALUES UNDER THE 2-FOR-1 SPLIT
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COMPANIES THAT COULD PAY HIGHER DIVIDENDS
— LIST SHOWING WHERE DIVIDENDS ARE LIBERAL — WHERE SKIMPY
By WARD GATES

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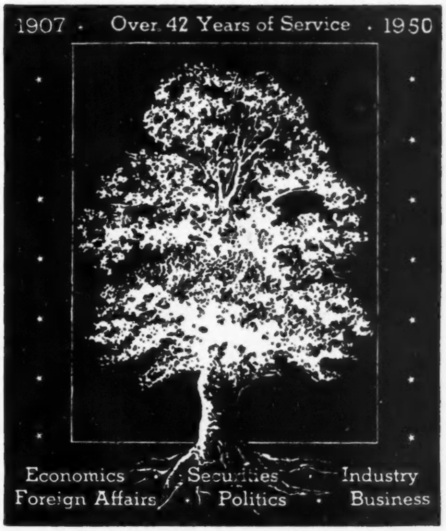
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

KOREA . . . Unless we act swiftly to demand that the Communists withdraw or be forced back by the United States, the people of this country will feel they are being betrayed by its leaders. The rest of the world will know they are leaning against "straw men" when they follow the leadership of the United States —and the great power of our country will evaporate overnight.

They will see the United Nations for the impotent instrument that it is, and the truth that Russia holds it in contempt having intended either to dominate it or ignore it.

If we act firmly before it is too late, and the Communists withdraw their forces, we will know that Russia is not ready for all-out war but wants to take the world piecemeal in the same way she has up to now, and the withdrawal of the Korean Communists would administer a setback to the Kremlin that may give us time to change the trend in Asia stemming from the communizing of China.

We have known for a year that the communists could move anytime they wanted. The same is true in Germany, in Iran, in Iraq, and yet our Government seems to be taken by surprise and no steps for necessary defense have been taken.

What has happened makes Trygve Lie's attempt to force recognition of Communist China look vicious, and will, I believe, rouse the American people to a realization of the worthlessness of the United Nations as it is presently constituted. It will confirm their suspicions already roused by Senator McCarthy and the Amerasia case and their wrath will be a demand for a change for the use of swift common sense action, instead of the familiar type of relying on dubious technicalities and further acceptance of "the dope" which has and still is the basis of our mistaken policy with regard to Russia.

CHARLES BENEDICT

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

DEPLORABLE VETO . . . President Truman's veto of the basing point bill leaves the entire issue completely in the air since pricing methods permitted to businessmen now remain as muddled as ever. A confusing Supreme Court decision seeking to correct ambiguities has now definitely become the law of the land, upsetting the distribution practices of the past by concurrence with a Federal Trade Commission attack on methods of pricing which include the freight costs. The effort of Congress to clarify this point has failed since a small pressure group has obviously succeeded in carrying their point at the White House, which incidentally has never previously expressed any dislike of the bill. The latter had even the approval of the nation's foremost anti-monopolists.

Specifically the bill was designed (1) to let business firms pay freight charges in shipping goods to customers, and (2) to let them cut prices to meet competition in any specific market, provided they acted independently. Today, because of recent Supreme Court decisions, many industries doubt whether they can safely use such pricing sys-

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty-two Years of Service"*—1950

tems. Faced with the President's statement that non-collusive freight absorption is legal, and the Supreme Court argument that uniformity in delivered prices is proof that the anti-trust laws are being violated, business men will be more likely to follow what the law says. They don't know where they stand.

The full effect of the veto won't become apparent until there is a return to a competitive buyers' market particularly in such lines as steel and cement where manufacturers may not be able to compete in distant markets. They might be barred by the antitrust laws from quoting the competitors price. Smaller producers who feel that their actions may not be studied closely by the anti-trust agencies, may absorb freight rates rather freely where competition makes it necessary. Thus for a time, a pattern may emerge under which there will be one law for the little fellow and another for big companies.

The latter, once competition gets really keen, will either have to join the freight absorption parade and run the risk of legal action, or else cut down their operating rates. Thus the Pittsburgh area, where much steel capacity is concentrated and which has to absorb freight extensively in normal times, may have to operate at a rate far lower than other production centers.

The proponents of the veto are claiming that monopoly has been defeated. But quite the opposite is true. Local monopolies are being encouraged and prices to the consumer will rise. Competition, which is the essence of the American system, is being prevented because nobody knows what is lawful and what is unlawful. All over the country, in commodities ranging from candy to tooth paste, and from steel to paper, manufacturers are wondering if they dare take a chance and absorb a part or all of the freight charges in quoting delivered prices. As Governor Duff of Pennsylvania remarked: "The veto is likely to raise the devil with industry."

ETERNAL PROSPERITY . . . It is not surprising that there is growing distrust of the vociferous proclamations of eternal and ever-increasing prosperity issued by Administration spokesmen. The latest apostle of this beautiful theory, Secretary of Labor Tobin, travelled far before saying what he did. He recently told the International Labor Conference in Geneva, Switzerland, that the United States has solved the riddle of depressions and will not ever experience a major depression such as we had in the early Thirties. "We are confident," he said, "of our ability to avoid a major depression because of the great advance made in social and economic legislation since 1933. The supports we put under our economy in these years stood us in good stead in 1949." In this he was paced by Mr. Leon H. Keyserling, chairman of the President's Council of Economic Advisers, who saw only smooth sailing ahead just the day before Mr. Tobin's optimistic prognostication.

It being an election year, one can understand to some extent this talking up of boom times. We do know, of course, that Government props are importantly responsible for current high level economic activity. Whether the latter can be perpetuated, however, as Mr. Tobin implies, is another question. How long business can be kept in an unnatural fever no one can say. As one cynical commentator remarked: "There could be no greater mistake then to hold the high color of the patient a sure sign of his good health."

The fact is that artificial stimulants play no small part in the business boom. Though everybody likes periods of high employment and record business activity, there are elements in the present situation that are unreal. And to some extent, these are elements injected by the Government because of fear that last year's mild recession might deepen into a real depression. When the recession got under way early in 1949, Washington exhibited no such glowing optimism as Mr. Tobin now does. There was no confidence that the supports put under the economy would really hold, hence new props were quickly provided and old ones strengthened.

One is pardoned for doubting whether such a course can be followed indefinitely, and for becoming fearful of the results if it is. In this connection one can only point to our Federal deficit, to the fact that the Government has some $4 billion tied up in price-supported farm commodities, to the impacts of the easy money policy, and the results of the Government's easy mortgage credit policy.

Rather than taking Mr. Tobin's promise at face value, we prefer to wait and see, and we are far from inveterate pessimists. But we are also realists. We hope Mr. Tobin is right, but we would like to be shown.

FLOUTING THE LAW . . . The new and serious tie-up of western railroads because of the rejection by the AFL switchmen's union of a presidential board's recommendations calls attention again to the progressive deterioration of union responsibility to the public interest. Growth of this dangerous defiance has been encouraged by the Government's constantly playing up to the labor leaders. As a result, neither laws nor moral sanctions apparently operate today to deter a willful union from reckless pursuits of its objectives, merely because of official reluctance to properly apply these laws.

There is proof that when properly applied, they are workable and effective, and this goes above all for the much-maligned Taft Hartley Act. An outstanding example is the recent potash strike at Carlsbad, New Mexico, resulting in a disruptive and unnecessary 73-day shutdown of three major potash producers. The strike was called by the communist-dominated International Union of Mine, Mill and Smelter Workers, threatening farmers with a disastrous lack of fertilizers and jeopardizing the nation's very food supply. Operations ultimately were resumed only through the use of Taft-Hartley procedures. The courts and the Taft-Hartley Act prevented mob rule and finally made possible resumption of production in the face of an artificial and promoted strike.

If proper Taft-Hartley procedure can be effective in one case, it's hard to see why it should not be effective in all. The fact that it can be effective, and that it is badly needed, no doubt accounts for the widespread opposition to the law's repeal, so urgently pressed by organized labor and the Administration. While the law has been flouted time and again with official approval, its usefulness has nevertheless been amply demonstrated.

Yet, as the renewed threat of a railroad strike shows, a nation essentially friendly to trade unionism is again confronted with an unsolved problem.

As I See It!

By ROBERT GUISE

BRITISH ISOLATIONISM

The hope of achieving a united Europe, which received such a boost through the proposal of the Schuman plan for integration of the Western European steel and coal industries, suffered a heavy setback when the British Labor Party espoused an isolationist foreign policy as set forth in its recent manifesto, strangely entitled "European Unity." It held that Britain must steer clear of all current proposals for integrating Europe because the proposed pool would be private, not governmental, and thus would jeopardize British socialist planning.

Throughout the western world, there were reactions of dismay and anger, as well as suspicion that the object was to sabotage the Schuman plan which had captured the imagination of the people as one of the first really constructive moves toward peace and stability. The manifesto plainly reveals the deep cleavage of viewpoints and casts a dark shadow over the conferences just begun to put the Schuman plan into action. While practical problems of its implementation would be great anyhow, they now may well become insuperable.

Prime Minister Attlee has been trying to explain that the party document is not a "statement of policy" —without exactly repudiating its sentiments. But while his soothing words have softened the attack, they didn't retract it. Actually the manifesto let the cat out of the bag. The Labor Party's aloofness seems strongly backed elsewhere. While politically, the blunder gives the Conservatives plenty to talk about, it is doubtful whether they are for the Schuman plan. Most observers are convinced that the British, whether socialists or tories, really don't want a united Europe on any terms, though some of their reasons might differ.

Back of the socialist viewpoint is of course the fear what European integration might do to British socialism, with the tacit admission that Britain's socialized industries cannot stand competition and freedom of trade because it is inefficient and wasteful.

"MR. ATLEE'S WORK IS ALL CUT OUT FOR HIM"

Dowling in the N. Y. Herald Tribune

But there are other reasons, equally fundamental.

Britain's attitude has always been one of a curious mixture of isolationism and interventionalism. Traditionally she has been following a "balance of power" policy, playing continental nations against one another to prevent any of them from becoming too strong, a policy that must be held responsible for a lot of Europe's past troubles. Obviously, European integration would perforce put an end to that, and equally obviously, Britain has no intention of abandoning her historic role no matter how dangerous and outdated it may be. Even now, when unity is of utmost necessity to strengthen the free world in its struggle with communism, British insularity persists – not just because Britain is committed to a planned economy and distrustful of too-close cooperation with free enterprise economies, but because she places her world position above Europe, wants to continue to hold the balance of power in Europe and eventually perhaps in the world as well.

In acting thus, she is again—as more than once in the past – playing directly into the hands of the Soviets. Moves for European unity have sprung from the conviction that Western Europe can be strong only if united; only then will it be able to defend itself and become independent of American aid. By dimming or wrecking hopes for European unity, Britain gives the Kremlin valuable support. Also she may well lose the sympathy of many of her friends and in the end find herself dangerously isolated in a dangerous world.

The great majority of the people in Europe, and probably in this country, feel that France—in proposing the Schuman plan, was headed down the right road. If the plan works, the threat of war would be greatly minimized, if not eliminated, and Europe would be free of the American dole. No wonder these people are angry; they have ample cause for it. So have the U. S. taxpayers (*Please turn to page* 396)

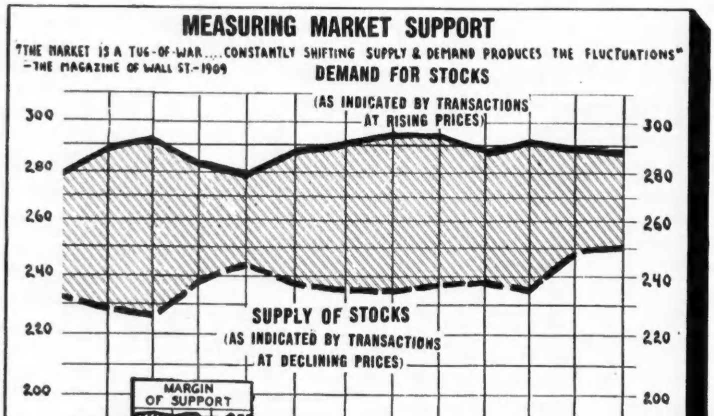
Further Market Readjustment Likely?

The reaction within the last fortnight was the largest on the cycle of advance to-date, but nevertheless minor. About half of it has been made up in recent days until the disturbing news from Korea again placed pressure on the market. While technical indications and strong basic business factors support the case for further uptrend, the possibility of international complications must be reckoned with. However, barring a definite worsening of the situation, there is justification in maintaining adequately invested positions though it might be prudent to reduce excessive commitments on rallies.

By A. T. MILLER

Indications suggestive of a corrective phase were cited in our discussion a fortnight ago, and were subsequently confirmed. From the June 12 high to June 20, the Dow-Jones industrial average reacted 7.66 points on the basis of closing prices; and 10.21 points on the basis of intra-day highs and lows. Figured either way, it was the largest sell-off during the entire advance from the June, 1949, low point. However, it shapes up as another minor correction, not as an intermediate reversal. It ran for only six trading sessions; it lowered the industrial average by less than 3.4%; and it cancelled only 11.4% of the total prior rise.

Such percentages are likely to be at least doubled when a full "intermediate" finally develops as now seems to be the case under the Korean impact. In three sessions toward the end of last week, the average made up half of the sell-off referred to. The immediate test would be an upside test if it weren't for the darkening clouds on the international horizon. In other words, the question as this is written is to what extent the latter may interfere with the renewal of the general uptrend.



A Favorable Indication

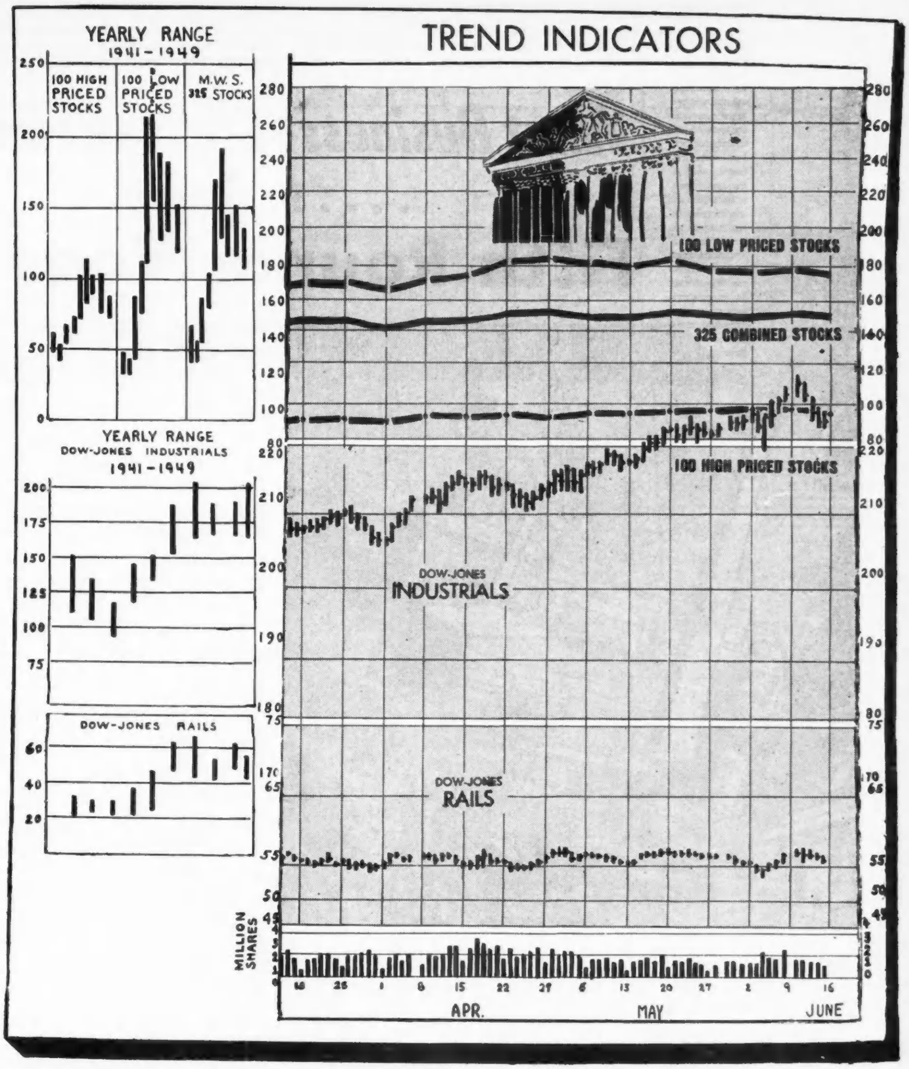
It may be noted that on the six-day reaction there was a tendency toward progressive shrinkage in volume; and that on the subsequent rebound the share turnover reached a higher figure than on any day during the reaction. This clearly suggests that the average investor, as well as the average trader, was still more interested in buying stocks than in selling them. That is, until today. Today's severe break revealed not only a desire to lighten commitments, but considerable reluctance to bid for stock even at sizeable concessions. Support, in other words, was thin and timid, and is likely to remain so until the situation is clarified one way or another. This is the psychological environment that can promote substantial "secondaries," if not worse. Ordinarily, secondary sell-offs, even in full intermediate corrections, have become rare in modern SEC-regulated markets. This doesn't mean that we won't face one now in view of the dangers inherent in the Korean crisis.

The case for a correction of more than minor scope also rests on the fact of a prior advance of over 41% in 12 months. It is obvious that the longer a rise runs, without more than minor interruptions, the nearer it must come to some real trouble. But there is nothing fixed about the time-table. We have pointed out before that this advance to date was exceeded by only one "leg," the first one, of the 1942-1946 bull market. However, the limits in that instance are not necessarily the limits in this one; and, even if they were, this rise could go substantially further—about 4 months further and to the vicinity of 250 in the average —before matching the 1942-1943 "leg" in duration and percentage. Whether it will is something else again, particularly in view of the uncertainties injected by

outbreak of war in Korea, with its inherent trouble potentials.

If the business outlook is satisfactory into 1951—and that appears to be the case—there cannot be much the matter with the market except for shock emanating on the international scene. Its internal position is a healthy one, devoid of significant excess. There has been relatively little speculation on this rise. Probably it has rested on cash-financed investment demand for better-grade stocks to a greater extent than did any previous advance of generally comparable scope and duration.

On a superficial look, the Dow industrials appear to be in "historically high" ground at recent high around 228. In the first place, that is something of an optical illusion, for the measurement is with a 60-cent dollar. Measured in dollars of constant value, the average is far under the highs of 1946, or 1937 or 1929. In the second place, no absolute price can be high if it is justified by the value that the buyer gets for his money; and values, measured by dividend yields, price-earnings ratios and book-values, are far more impressive than they ever were before when the price average (without adjustment for dollar depreciation) was as high as, or higher than, it is now.



It should be emphasized, too, that the Dow average is not "the market" but a limited, blue-chip segment thereof. The real "market," typified by our weekly index of 325 stocks, is well behind the Dow average. At its high to date, made May 20, this index was still 38 points under its 1946 high. Allowing for the 60-cent dollar—and for prevailing yields above 6%, compared with 3.5% or less around previous major market tops, and with about 5% even at the top of the abortive 1948 market recovery—the index remains at a definitely moderate level. The index of 100 low-priced stocks is currently a little nearer its 1949 low than its 1946 high; and hence remains at a semi-depressed level.

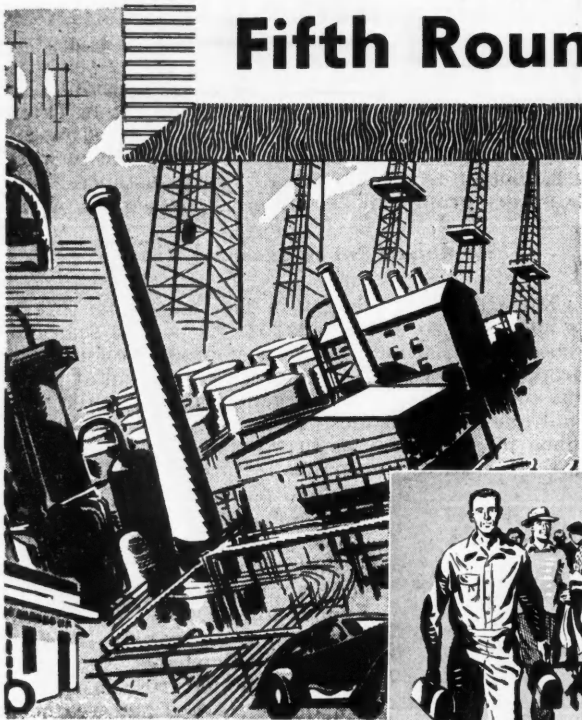
What both indexes reflect is a limited confidence, on the part of the "general public," in this advance —"general public" meaning the kind of people who got interested in buying common stocks in 1928-1929; in late 1936 and early 1937; and in late 1945 and early 1946. It would be something new under the sun for a major rise to end without these people coming in. But any serious war threat might have just that effect, and this cannot be dismissed. Barring foreign complications, there is room for substantial further rise, even if we come nowhere near the optimism of May, 1946, or March, 1937, or August, 1929, as measured in price-earnings ratios and yields. Price-earnings ratios average under 8, against double that, or more, at past major market highs.

The Business Outlook

Industrial production has now about duplicated the peak level of the autumn of 1948. A seasonal letdown in July is certain, but second half output should approximate, or moderately exceed, that of the first half. It could do so even if the high June level is not regained. Auto production will set a new record, by a good margin, for the full year; but since recent output has been at a rate of 10 million units a year, some slackening must be allowed for. The same is so of the housing boom, with recent starts at close to a 1.7 million annual rate; but with the full-year total unlikely to exceed 1.3 million.

On the other hand, there has recently been a strong upward surge in manufacturers' new orders for "soft goods", in which trade had long been slow. Coming on top of heavy bookings in durable goods, this will contribute something to (*Please turn to page* 396)

What Business—Economic Implications
.... in Coming ....
Fifth Round Wage Hike?



By

E. A. KRAUSS

The end of the Chrysler strike practically completed fourth round contract bargaining between industry and organized labor. The latest agreement between General Motors and CIO's United Auto Workers marks the beginning of the fifth round, not necessarily to be negotiated this year but almost certainly next.

The reason for the intervening pause, welcome as it is, is not because labor is less militant, or labor leaders less anxious in their rivalry among themselves to impress the rank-and-file with new achievements. Rather it is due to the timing of past settlements; existing contracts in major industries simply cannot be reopened before the end of the year. While this portends labor peace for the next six months, it is already possible to preview union demands for 1951, the outlines of which have been further clarified by the GM agreement.

There is always a chance of course, that John L. Lewis, reneging on his promise not to strike before next April 1 (he has reneged in the past), may decide to have a fifth round of his own this year. The odds are against it in view of the precarious position into which he has "bargained" himself, his miners and the coal industry. But his new demands for 1951 apparently have already crystallized. They will center not so much on still higher wage rates, since the coal industry can hardly support another drastic hike, but on the new formula of less work with no cut in take-home pay. Essentially, of course, this too would amount to a wage boost but the thought is also to spread employment in the coal mines which has been dropping alarmingly following the latest hike in wages and royalties for the miners' welfare fund.

In most other major industries, however, wages are tied for the rest of the year, assuring a stable labor cost situation at least that long. This applies particularly to the automobile and steel industries where the earliest reopening of contracts on wages cannot occur before January 1, 1951, while new pension programs cannot be negotiated for five years. The latest GM deal is supposed to run for five years both on wages and pensions.

The fourth round was quite a round, establishing the pension principle over a wide area of American industry. It also brought severe and protracted strikes of well-known impact. The big question now is: What about fifth round demands?

It is fairly safe to assume that wage boosts will replace pensions as labor's top demand, particularly if corporate profits hold at present levels. Labor will insist on a bigger slice and initial demands, according to informed estimates, may start off with hourly rate increases as high as 20c or 25c though ultimate concessions may rarely exceed ten cents an hour. And there will of course be the usual fringe demands, with dismissal pay looming as one of the larger cost items in this respect.

Doubtless there will also be the usual talk about annual work and wage guarantees, particularly in the steel industry, but it is expected that the unions will settle for higher wages. Annual guarantees of this sort are recognized as a long range issue, not to be pressed at this time except for bargaining purposes to win other concessions.

But pensions, too, will remain in the picture, with the drive continuing in industries where pensions have not yet been negotiated. These will be under pressure for bigger and more expensive retirement plans than those granted generally this year and last, with $125 a month the immediate aim, plus insurance and disability benefits. Additionally, wider emergence of

citywide or areawide pension contracts, so far limited in number, will be sought. Unions want to branch out further in this respect so that workers can change jobs and still retain their benefits.

Altogether, higher wages, bigger pensions, annual guarantees, long term contracts and the cost-of-living formula as a determinant of wage rates will be live issues. High corporate profits, improved productivity, scattered price rises and the prospect of higher rents in many areas will be cited as reasons why a fifth round is essential.

Administration Supports Annual Wage Boosts

In this, labor will doubtless have Administration support. President Truman only recently strongly endorsed the principle of annual wage boosts based on increased productivity. And productivity *is* rising, not so much due to greater worker effort but because of the enormous postwar outlays by industry for modern machinery and other emphasis on time and cost saving practices.

Apart from purely economic demands, the union shop is likely to remain a highly disputed issue. It has been pushed, somewhat unsuccessfully, in the fourth round and will again be pushed, perhaps harder, in fifth round negotiations though some big contracts prevent raising the issue before 1952. And it must be remembered that the union shop, while not as stringent as the closed shop, is a fighting issue for many managements and thus may well become an obstacle to agreement even when ideas on economic demands are not far apart.

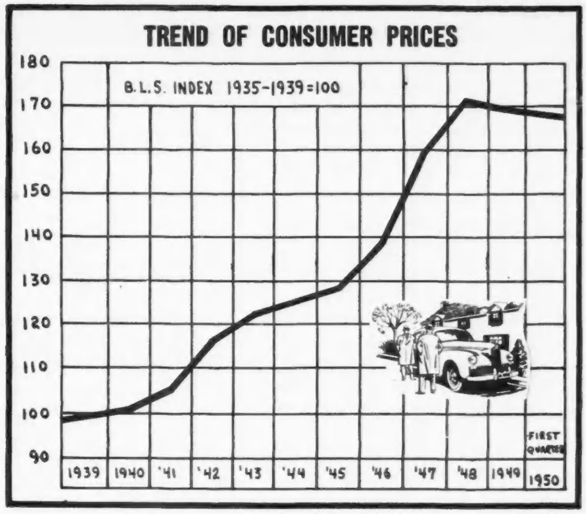
Due to the factor of timing previously mentioned, Round Five will not reach its climax before mid-1951, and some companies will not have to negotiate until late next year. But we can be sure that employers will more and more insist that wage rates will be fixed for longer than the customary annual period as in past rounds. The General Motors agreement may prove pattern-making in this respect.

Whether the fifth round will be relatively peaceful or another difficult strike-ridden experience is anyone's guess at this time. Much depends on the exact scope of demands and the vigor with which they are pushed, as well as on the general economic environment, current and prospective. Wage demands may be lowered, should recessive tendencies develop. A 35-hour week at 40 hours' pay may be sought by unions where unemployment is prevalent (as in the coal industry); however, a shorter work week as a national issue is not likely to spread far unless idleness spreads to industries that are now booming.

More or Fewer Strikes Ahead?

Stubborn insistence on the union shop may lead to considerable strife; limitation of bargaining to economic issues should reduce a good deal of friction. If business remains good, with prices and profits fairly stable, employers may be willing to grant wage boosts of, say, 10c an hour, perhaps even more in some instances, without strikes. But if the boom should encourage unions to try for bigger demands, the strike risk will be enhanced. On the other hand a slump, with more men out of work, would certainly make unions less anxious for walk-outs.

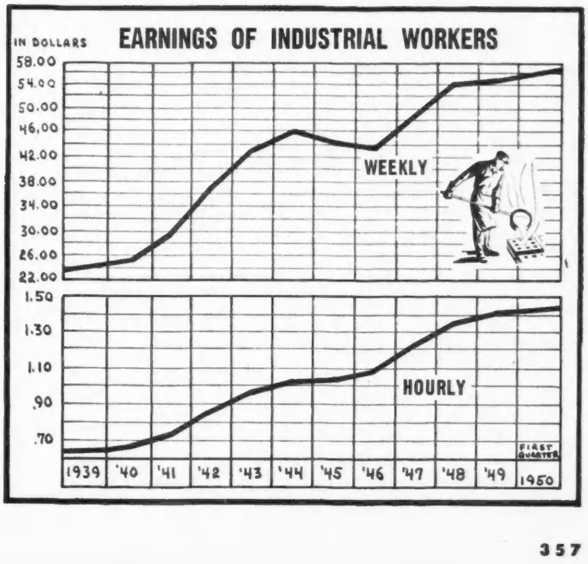
While one must allow for uncertainties as to exact details and the intensity of the fifth round push, the latter itself is virtually a foregone conclusion. The electrical industry will be the first to face demands



similar to the concessions made in the General Motors agreement, which GM already has extended to workers in its own electrical plants, leaving General Electric and Westinghouse Electric to do the future bargaining with the electrical workers. The issue here is a combination of fourth and fifth round demands with pensions prominent; a fourth round settlement was delayed by the fight between the pro-communist UE and the anti-communist IUE.

These negotiations will provide an interesting test as to what extent the provisions of the GM agreement can be adopted as a general fifth round pattern. Generous as it is, the GM pattern is hardly suitable for all industries or all companies, not even within the motor industry. Few in fact may be able to afford it because of diverse problems and, mainly, because they are not in the unique position General Motors finds itself. Strangely enough, even within the UAW, the five-year freeze on wage negotiations and strikes is not uniformly liked, particularly by left-wingers who prefer retention of the right to strike.

Yet no-strike formulae probably will be pushed by industry and strike avoidance, if the GM formula works, may probably be had at a price—in terms of annual wage increases, living cost adjustments, substantial pensions and other welfare benefits. But such a price will be high for a good many managements,



perhaps too high for all but the biggest and most efficient. For the latter, the price may turn out to be relatively low as for General Motors which is gambling on long-term labor peace on the assumption that the workers, using the most modern machinery, will pay the cost through greater efficiency.

That is a sound premise, but not every company can adopt it with any assurance of success, particularly those less efficient in management and operations, or who lack control over working rules and the use of new machinery due to union opposition. For the GM pattern to become general would certainly require a changed union attitude towards greater mechanization of the productive process in a good many industries and companies which now find themselves stymied in this respect because protection of jobs rather than greater efficiency has been an overriding goal of union policy.

Economic Implications of Fifth Round

What will be the economic implications of another round? Obviously it brings up the question of price rises, of revival of inflationary spirals, for there will always be an attempt to pass on higher labor costs to the consumer. Some companies in fact will have no other choice. Yet the production and demand outlook is such that spiraling prices on a broad scale are not a likely prospect. Higher prices are bound to meet consumer resistance, or else will prove undesirable for competitive reasons. Where this is so, profit margins will be squeezed unless the higher labor costs are offset by booming volume or by gains in operating efficiency.

This will favor the big and the efficient, and is a threat to smaller concerns, particularly where efficiency is sub-standard. The ultimate result could well be that the big will grow bigger and the small smaller. Marginal producers will certainly be hardest hit by new labor demands, and their lot is already a difficult one.

But there is another side of the picture. Rising wages will spur business because they sustain and even increase the buying power of the beneficiaries of fifth round boosts. Beyond that, the capital investments forced to offset the rising wage trend will also support general economic activity, and may do so for a considerable time to come as producers wrestle with the problem. In a sense it might be said that the revival of the boom, because it is leading to new wage demands, is also starting a race between wages and capital investments. Whether prices will follow is another question.

Wage Trends and Capital Investments

As to capital investments, the wage trend is already casting its shadow ahead. American business has revised upwards its planned expenditures on plant and equipment in 1950, with the latest survey indicating that such outlays for the first nine months of the year are now expected to amount to $12.7 billion, only 6% less than for the corresponding period of 1949. A previous survey expected a drop of 11% for the whole of 1950.

Actually third quarter capital expenditures, estimated at $4.48 billion, are higher than last year's, comparing with $4.37 billion; if the fourth quarter shows up similarly, the overall margin of decline for the entire year will further narrow. And rising costs, chiefly wage costs, in an increasingly competitive era is the primary factor behind this development.

Thus one might postulate that rising wages are essentially bullish, just as many consider rising prices as bullish. They are, over the shorter term; but how about delayed impacts?

If higher prices ensue, and in some fields this is bound to happen, they eventually will have an effect on markets if only because a relatively small segment of the consumer army will benefit from fifth round raises, and others only after a certain lag. The potential effect on markets is of course difficult to appraise, because many imponderables enter; it may reflect both inability to buy and unwillingness to buy. But there is always the danger that some products, with prices advanced, may price themselves out of a portion their market. If so, this would react against business and the worker.

As an example, there is right now some fear what rising construction costs might do to the building boom. Materials prices have gone up for some time and on top of that, new wage contracts have recently been signed in a number of areas, with a minimum of publicity, and others are likely to follow next year. Building is booming and there is a scarcity of workers, thus the unions are in a position to call the tune and they are doing just that. The builders are passing the extra cost along to the public; new homes in the future will cost more.

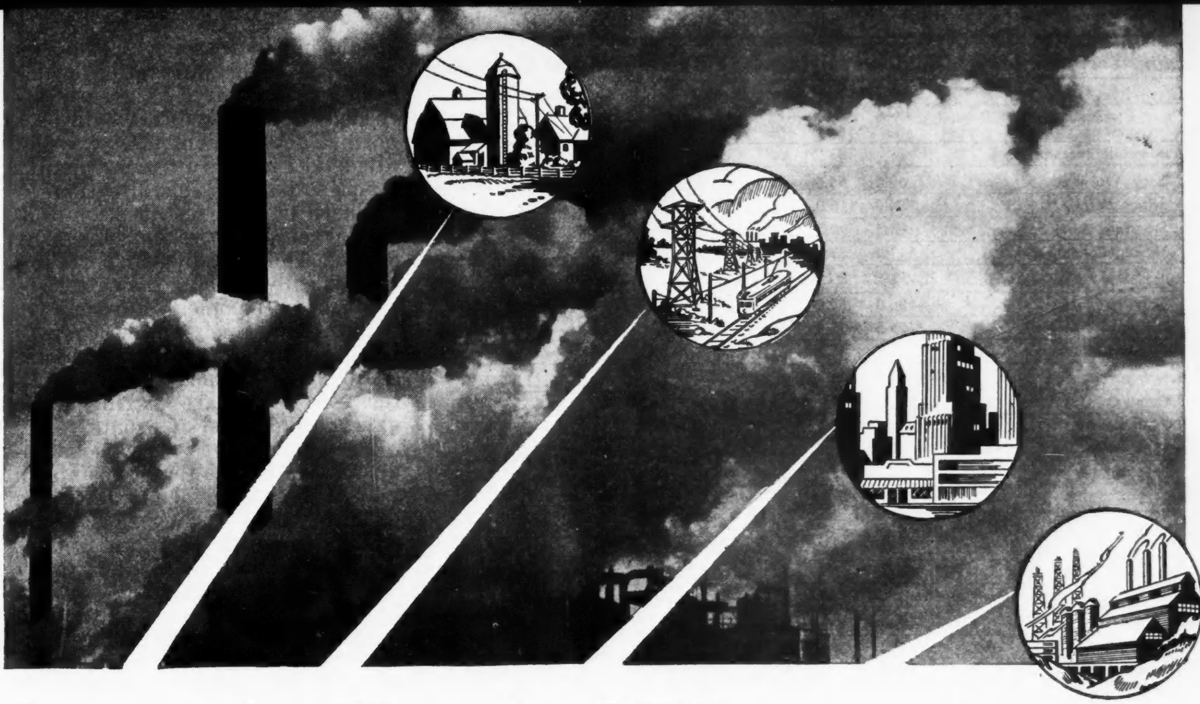
Whether this will cut short the construction boom by discouraging home buyers is a moot question but deserves consideration. Certainly new houses, being marked up, will be harder to sell, and this may have wide repercussions on other industries that are closely tied to construction activity. Once adverse market repercussions become evident, labor may be forced to think more "realistically" and assist in reducing costs. Such thinking in labor ranks is as yet rare but it may become more popular under force of necessity.

Chain of Repercussions

Broadly speaking, the heavy pressure for pensions and continuous wage boosts adds to production costs, and under such circumstances there will be pressure on profit margins and prices. To relieve this pressure, new machinery will be introduced. As these more efficient units come into operation, workers will be laid off, thereby lightening payrolls. The problem of dealing with this technological unemployment will become more pressing. Labor will find that to some extent at least, they have priced themselves out of jobs.

This is one of the dangers inherent in annual wage drives, apart from the uncertainty and instability thereby injected into the price structure and into business as a whole, both from an operating and profit standpoint. Hence the wave of satisfaction which has greeted GM's five-year contract with the United Auto Workers Union, for it means an attempt at least to meet on common ground and take calculated risks on the future.

It certainly is a distinct departure from past experience when labor unions were obsessed with fear to make long term contracts. It also implies a decision on the part of the union not to stand in the way of new tools or devices that permit larger production with the same human effort. On the one side, GM has handed the union something like $100 million in concessions; on the other it will spend another $100 million for new tooling. The significance of this should not be lost. *(Please turn to page 391)*



Companies That Could Pay HIGHER DIVIDENDS

By WARD GATES

Though aggregate corporate net profits last year were about 20% down from the postwar peak year 1948, dropping to $16.7 billion from $20.8 billion under the impact of recessive trends during the forepart of 1949, stockholders as a group not only received more in dividends but a far larger share on a percentage basis than they ever got since 1940 with the single exception of 1945.

In the latter year they received 54% of corporate net income, in the boom year 1948 only 37%, but last year they got 50%. This may still appear fairly moderate when compared with the 1939 ratio of 76% or the average of 66% disbursed during the 1920s, yet it probably constitutes a turning point towards a better break for the stockholder in the future.

Needless to say, the new trend towards greater percentage distributions is highly welcomed by stockholders who in initial postwar years had cause for complaint about niggardly treatment in the face of large and steadily mounting corporate profits. Additionally it is not without market implications. Higher dividends last year and so far this year have tended to offset the shrinkage in yield implied by rising stock prices with the result that despite the latter, yields have remained attractive in most cases. Since dividends and dividend yields, plus the dependability of disbursements, constitute a dominant factor in the valuation of common stocks, the importance of the new trend is obvious.

The reasons for the latest turn are well understood. In the years 1946-48, capital needs were high and the bulk were met by retained profits. Last year the picture changed. Spending for plant and equipment decreased, inventories were cut back, prices were no longer rising, sales were expanding more slowly if at all and credit to customers gained very little. All of which lessened capital needs and, in fact, augmented cash positions, making possible a higher rate of disbursements despite lower earnings in many cases.

Other reasons, too, played a part in liberalizing dividend policies. One was increasing recognition of stockholders' rights to a fair share of the profits and a desire to improve management-stockholder relationships, frequently strained by severe criticism of dividend policies. Another was the possibility of stricter application of the undistributed profits tax. A third, more recently, the uptrend in earnings in the wake of revival of the boom, or achievement of a degree of earnings stabilization which permitted not only higher dividends but greater equalization of distributions throughout the year.

The higher percentage of distributed earnings should at least be maintained in 1950; if so, it will mean a record outpouring of dividends to equity holders. Under the spur of the current boom, total corporate earnings may snap back to some $19 billion and a 50% distribution, on the average, would mean aggregate dividend payments of some $9.5 billion, the highest in history and exceeding last year by a cool billion.

This is a realistic possibility, barring a substantial setback in business late in the year which is hardly likely. Moreover, there is no prospect for large increases in inventories and receivables which could once more strain corporate cash positions. Spending for plant and equipment will be below last year, thus needs for funds for this purpose will be less than in 1949. And since working capital positions generally are extremely sound, with a high degree of liquidity often prevailing, there is no reason why the percentage of earnings distributed to shareholders

Long Term Ratios of Dividend Payments in Relation to Net Earnings

	% of Common Earnings Paid in Cash Dividends							
	1937 %	1939 %	1941 %	1945 %	1946 %	1947 %	1948 %	1949 %
Automobile Accessories:								
Borg Warner	69.0	55.6	62.5	41.6	43.6	32.0	36.2	60.0
Briggs Mfg.	84.0	115.0	79.5	65.3	89.0	51.8	46.2	43.5
Standard Steel Spring	96.5	90.5	34.8	20.8	46.4	32.9	32.7	41.4
Timken Roller Bearing	111.2	83.0	89.5	90.2	82.6	65.4	55.0	188.3
Automobile Manufacturers:								
Chrysler Corp.	86.0	59.0	65.1	34.8	48.5	37.2	39.0	34.5
Diamond T Motor	95.5	55.8	46.4	28.8	54.5	38.6	56.8	285.7
General Motors	85.5	86.2	84.3	73.6	127.5	47.7	46.3	54.6
Building:								
Celotex	28.7	......	44.0	115.5	24.0	16.2	24.2	79.6
Flintkote	66.7	47.5	42.6	67.6	44.2	23.9	51.2	57.7
Johns-Manville	82.0	63.4	45.0	57.0	59.4	44.8	38.3	51.7
Lone Star Cement	88.5	88.0	92.5	77.0	71.8	63.6	55.0	43.5
Chemicals:								
Air Reduction	105.0	76.0	76.5	66.0	105.0	48.2	42.3	44.2
Columbian Carbon	78.0	84.6	71.5	69.8	48.5	53.1	49.6	54.2
Dow Chemical	86.0	45.1	42.0	68.0	32.5	35.3	26.7	29.2
Du Pont de Nemours	86.0	91.5	94.1	83.5	74.3	81.0	74.1	75.2
Distillers:								
National Distillers	71.1	58.4	57.6	38.6	28.4	43.7	59.3	66.0
Schenley	59.7	......	19.3	17.7	13.7	26.7	24.4	29.7
Drugs:								
Bristol Myers	81.0	69.0	71.5	66.0	49.0	71.3	54.4	89.8
Parke Davis	97.4	95.2	97.5	82.0	51.3	72.8	70.7	55.1
Sterling Drug	79.6	72.6	76.5	59.6	53.0	65.0	69.4	68.3
Electrical Equipment:								
General Electric	100.0	98.0	70.8	79.0	107.0	52.2	39.6	45.8
Square D	64.7	58.0	47.0	56.5	39.3	42.5	48.0	61.1
Westinghouse Electric	80.0	67.5	69.5	49.3	150.4	34.8	32.2	28.2
Food:								
General Foods	114.0	80.1	78.0	68.0	61.8	62.7	47.0	47.2
Standard Brands	109.5	86.5	92.6	55.0	43.2	90.8	97.5	62.0
House Furnishings:								
Bigelow-Sanford	271.0	15.5	66.6	84.5	56.6	37.5	33.2	58.5
Simmons	78.2	83.0	66.0	53.5	39.4	35.5	35.2	55.5
Farm Equipment:								
Allis Chalmer	79.0	60.0	46.5	60.3	(a)	94.6	28.2	28.6
International Harvester	63.5	302.0	51.0	68.0	77.0	49.7	43.3	39.0
Machinery—General:								
Fairbanks Morse	57.5	36.4	51.5	57.7	49.0	35.5	26.0	43.8
Ingersoll Rand	61.0	100.0	85.5	99.6	75.5	56.0	56.5	77.7
Link Belt	67.0	67.4	50.5	53.6	36.4	43.2	38.2	51.3
Worthington Pump & Mchy.	......	......	......	25.6	18.8	25.3	24.1	19.5
Milk Products:								
Borden	111.5	77.5	74.8	63.2	48.7	55.0	57.1	53.0
National Dairy Products	78.5	42.1	40.5	61.5	40.8	49.0	44.5	41.7
Office Machines:								
Burroughs	86.0	91.0	74.0	160.0	137.5	48.0	29.8	60.0
Int. Business Machines	58.5	57.4	57.4	63.1	45.7	36.5	35.6	31.7
National Cash Register	52.0	90.1	62.5	94.0	60.7	35.7	31.9	42.2
Oil:								
Barnsdall Oil	117.5	118.2	26.7	40.6	39.1	37.7	38.9	43.9
Gulf Oil	28.6	59.2	40.6	40.3	39.0	33.3	22.1	42.2
Humble Oil	38.4	60.1	51.0	38.1	40.7	43.5	38.5	59.7
Skelly Oil	24.7	37.7	24.9	23.1	19.4	11.6	33.5	50.0
Standard Oil of California	63.1	79.8	65.5	47.0	44.8	38.8	32.2	39.6
Standard Oil of N. J.	44.4	38.3	48.6	44.4	47.5	40.7	16.0	44.8
Paper:								
Champion Paper & Fibre	114.0	4.5	21.4	46.1	22.4	28.0	23.0(f)	26.6(f)
International Paper	......	......	......	......	35.3	26.7	60.0	70.2
Kimberly-Clark	55.4	41.6	47.8	60.7	31.8	29.5	32.8	31.2
Scott Paper	70.5	69.5	77.5	96.0	88.5	64.5	54.7	43.1

should not increase. A gradual re-approach to prewar ratios, which even in average years greatly exceeded the 50% mark, would be a normal development. The wave of dividend increass in rcent months seems to point in this direction.

There can be no question that the larger disbursements by many of the nation's leading corporations are basically revising the pattern of stockholder income. Unfortunately the uptrend, timely and welcome as it is, is far from uniform. Some companies could do a good deal better. And not all are sharing in the general high level of profits.

Basic conditions in various industries of course tend to establish widely diverse dividend policies. In groups where turnover is rapid and inventory risks minimized, it is usually safe to distribute a fairly liberal share of earnings. Where business is highly cyclical and break-even points high, more cautious policies must necessarily prevail. Moreover, dividend policies of individual concerns are bound to be influenced by existing expansion and modernization plans, costly research projects, working capital positions, need for establishing reserves or requirements for refunding and other financial purposes. In short, it is frequently illogical to apply a common yardstick without consideration of individual factors. But even then, divergences are considerable.

To bring this out, we have listed representative concerns in 22 industries, showing the percentage of net profits paid to common stockholders in various years. It is interesting to note how the policies of some groups follow a well defined pattern, while in others the picture is quite mixed. As for the general run of the companies listed, the wide variation in percentages is significant.

However, it takes no more than a casual glance at the 1949 column to note the general untrend in dividend ratios which, incidentally, have no bearing on the amount of dividends paid, but represent the percentage of net earnings distributed to stockholders. There have also been declines, some in unexpected places.

In the automotive parts group, we note that Borg Warner's percentage of dividend distribution jumped to 60% last year from 36.2% in 1948, or back approximately to the 1941 level. This sizeable jump reflects not only a higher dividend but also lower earnings compared with the preceding year,

both factors tending to raise the percentage figure. In the circumstances it is unlikely that the latter will further increase this year, but then it is already satisfactory.

By way of contrast, the ratio of Briggs Manufacturing narrowed moderately to 43.5% from 46.2% in 1948, despite a somewhat higher dividend paid in 1949. The reason for the shrinkage was that earnings rose even more. The 1949 ratio for Timken Roller Bearing was 188.3%, a rather unusual figure brought about by the fact that whereas earnings dropped to $1.46 a share last year from $5.45 in 1948, the dividend was lowered only to $2.75 from $3 a share. Since meanwhile there has been a marked rebound in earnings with first quarter profits almost equalling the total for 1949, the 1950 ratio is bound to drop back to more normal proportions. The company, incidentally, ranks among those who usually pay out a fairly high percentage of profits, ranging from a rather high postwar low of 55% to 90% in 1945 and nearly as much in 1941.

Chrysler Corporation's ratio of 34.5% last year would appear rather skimpy, and was even less than the 39% of profits paid out in 1948. It reflects a dividend of $5.25 out of 1949 earnings of $15.19, a relationship far less favorable to the stockholder than prevailed in prewar years. Against this, General Motors paid out 54.6% and should do at least as well this year. Chrysler's ratio should rise this year, not only because of the possibility of higher over-all disbursements, but because earnings are likely to fall below last year's because of strike-affected poor first quarter results. If the dividend is maintained as it probably will be, the ratio to earnings thus will rise since stockholders will get more.

In the building materials field, we note very considerable variations in percentage figures, which range all the way from 43.5% for Lone Star Cement to 79.6% for Celotex. In between we find Flintkote with 57.7% and Johns-Manville with 51.7%. The latter's figure is likely to rise, perhaps substantially this year. Not only is the firm's ambitious postwar expansion program completed, but it is now bearing fruit in terms of higher sales and earnings. Because of it, the management has declared its intention henceforth to reward stockholders with a larger share of profits.

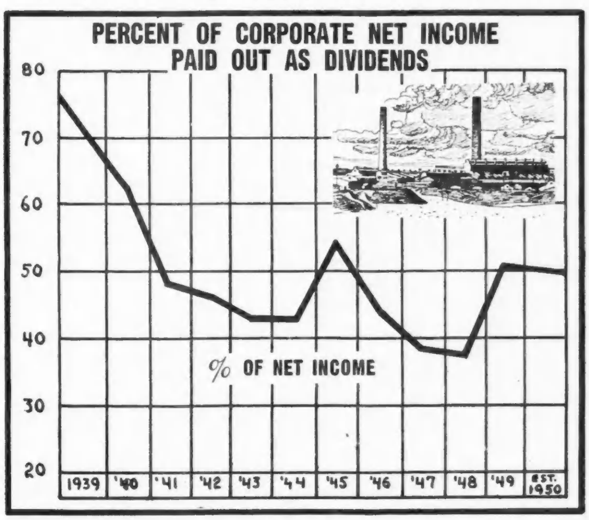
On the other hand, Lone Star Cement has been far from generous. Its 1949 dividend of $4.50 a share remained unchanged from 1948 though per share earnings jumped to $10.34 from $8.18 in a progressive and substantial upward trend ever since 1946. With cement demand heavy and earnings continuing high, it certainly could afford more liberal dividends in 1950, more in line with its previous record when disbursements ran between 60% and 90% of earnings as shown in our table.

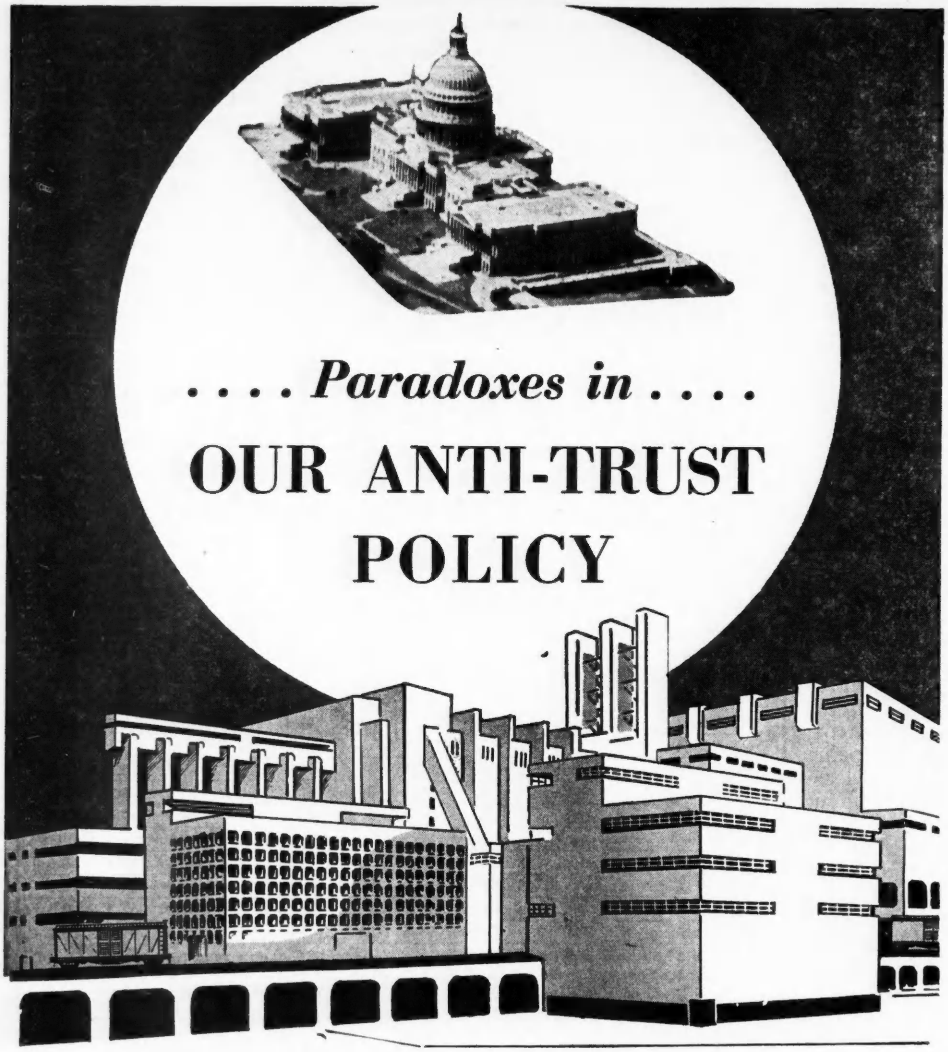
Wider variations are also found in the chemical group, where DuPont last year paid out 75% of earnings in contrast with (*Please turn to page* 396)

Long Term Ratios of Dividend Payments in Relation to Net Earnings
(Continued)

	% of Common Earnings Paid in Cash Dividends							
	1937 %	1939 %	1941 %	1945 %	1946 %	1947 %	1948 %	1949 %
Railway Equipment:								
American Brake Shoe	85.0	52.3	62.0	66.0	57.1	58.4	56.5	62.1
American Car & Foundry	(b)	.....	.....	54.5	57.2	57.0	86.4	61.8
American Locomotive	.....	.....	.....	41.5	54.5	82.5	60.8	56.0
Westinghouse Air Brake	112.0	72.0	92.0	96.5	57.4	71.5	60.0	63.6
Retail—General Mdse.:								
Grant, W. T.	86.0	56.5	40.5	45.0	20.7	51.0	40.8	26.7
Kress, S. H.	69.5	83.0	80.5	75.0	77.1	65.0	77.8	70.2
Woolworth, F. W.	70.0	79.5	74.5	66.0	51.1	57.9	55.7	65.2
Retail—Mail Order & Dep't. Store:								
Allied Stores	20.8	.....	.....	32.0	21.2	21.7	42.0	55.3
Macy, R. H.	109.0	85.0	119.0	58.5	52.0	43.3	56.9	56.0
May Dep't. Stores	106.5	84.0	79.9	56.0	36.2	34.0	46.5	51.7
Montgomery Ward	143.5	25.5	50.0	48.5	31.8	66.0	29.1	42.0
Sears Roebuck	98.5	64.5	67.0	69.8	41.5	38.5	38.7	49.1
Steel:								
Bethlehem	65.6	26.2	64.3	63.3	51.0	40.2	25.6	24.8
National Steel	42.6	24.9	41.6	59.6	35.4	33.3	30.4	34.3
U. S. Steel	12.5	.....	38.4	106.8	55.0	56.0	41.5	41.7
Youngstown Sheet & Tube	48.0	.....	33.0	48.5	35.3	30.1	23.4	31.6
Textiles:								
Burlington Mills	57.2	38.1	31.4	47.6	34.0	23.0	26.5	34.8
Cannon Mills	66.5	62.0	63.5	30.8	10.9	34.5	41.7	87.2
Celanese Corp. of America	110.0	13.6	62.0	70.7	38.1	34.0	33.2	75.2
Industrial Rayon	572.0	42.0	82.5	76.5	28.7	28.2	36.1	50.0
Pacific Mills	(c)	.....	7.4	49.6	19.7	29.8	30.7	84.1
Tire & Rubber:								
Firestone Tire & Rubber	60.0	49.3	34.4	33.6	28.4	29.7	28.9	45.3
Goodrich, B. F.	(e)	28.4	39.8	28.7	25.4	31.0	33.2	38.3
U. S. Rubber	.....	.....	41.0	45.0	29.4	56.3	59.0	55.1
Tobaccos:								
American Tobacco	99.5	98.0	98.2	88.3	54.6	58.8	49.4	50.6
General Cigar	107.0	157.0	80.5	93.5	63.5	57.0	61.4	70.0
Reynolds Tobacco	104.5	90.0	90.5	86.5	67.0	67.7	61.3	53.3
U. S. Tobacco	114.0	99.5	95.1	117.7	118.0	95.0	81.3	88.8

(a)—Paid $1.60 on a reported deficit $.06.
(b)—Paid $.25 on a reported deficit $2.12.
(c)—Paid $1.50 on a reported deficit $5.24.
(e)—Paid $1.00 on a reported deficit $2.71.
(f)—Based on 11 months net income in 1948 and estimated net income in 1949.





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OUR ANTI-TRUST POLICY

and in part by technology – have undergone great transformation.

A re-study of anti-trust principles and a thorough revision of conflicting and confusing laws is unquestionably long overdue. Equally in need of a thorough airing, and correction, is the mounting propensity for judicial usurpation – particularly in Federal court decisions—of legislative prerogatives.

As chairman Lowell Mason of the Federal Trade Commission, whose duty it is to enforce many of the anti-trust laws and who can therefore be regarded as an authority on the subject, put it: "American business is being harassed, bled and even blackjacked under a preposterous crazyquilt system of laws, many of which are unintelligible, unenforceable and unfair. There is such a welter of laws governing interstate commerce that the Government literally can find some charge against any concern it chooses to prosecute. This system is an outrage, and it's time the Government did something sensible about bringing its own operations up to the same standard of ethics that it expects of business."

By JOHN D. C. WELDON

To judge by recent remarks of Secretary of Commerce Charles Sawyer, the Government's anti-trust policy appears to be moving closer to a re-examination. He has advocated a new look at our hodge-podge of anti-trust laws and called for "a new and modern definition of effective competition." He suggested that the test of competition should be its effect on the consumer.

This runs counter to a good many recent actions which don't charge injury to the consumer but to the competitor. But at any rate, it is refreshing to hear Mr. Sawyer admit that the rulings, the judicial decisions and the official thinking on the subject of anti-trust policy are so conflicting and confusing that a re-study, and perhaps a re-statement of policy, is in order. After all, he concedes, the Sherman Act is 60 years old, business conditions have greatly changed, and court decisions have confused rather than clarified the issue. The scope of business activity has been amazingly enlarged, the feeling of social responsibility on the part of businessmen has developed greatly, and competitive business methods—due in part to restraint put upon them by Government action

Another authority, Supreme Court Justice Jackson, when he was the head of the anti-trust division in the Department of Justice, had this to say: "It is impossible for a lawyer to determine what business conduct will be pronounced lawful by the courts. This situation is embarrassing to businessmen wishing to obey the law, and to Government officials attempting to enforce it."

Just what the proposed "new and modern definition of effective competition," upon which a realistic clarification of our anti-trust laws is to be based, is likely to be remains to be seen. For the time being, however, there is every evidence that big business busting is entering a new era with the apparent aim of breaking up large companies. Monopoly, it seems, is no longer the principal issue. It's bigness, and at that not only bigness of single companies but "oligopoly"—the dominating position of a few large

companies in any given field. "Big Threes" and "Big Fours," as they exist in various industries, will face a crackdown.

There is plenty of evidence to support this conclusion. General Electric has become one of the latest targets, with the Justice Department out for a court order which would force GE to reduce its electric lamp manufacturing activities by one half. What measurement is used to determine just how large GE's lamp making activities should be to conform with the anti-trust laws and with the national interest is not stated, and we may never know it. Suffice it to say that GE has about 58% of the lamp business compared with 82% in the years prior to 1924, and apparently such a percentage is still regarded too big.

The Case Against Alcoa

Another significant event was the recent court decision handed down in the case against Aluminum Company of America. Alcoa had pointed to the Government's postwar build-up of Reynolds Metals Co. and Kaiser Aluminum as competitors and asked the court to remove the "monopoly" label which was given the company back in 1944. However the court refused to do that. Instead it declared that competition had not been restored in the industry and suggested that proceedings be held in abeyance for five years to see how competition then shapes up.

If Alcoa's competitors obtain a good share of the business, then presumably Alcoa won't be regarded a monopolist. It leaves open the question whether Alcoa has to become inefficient and let the other companies outdo it; or whether its competitors have to become as efficient, or more so, to garner a bigger share of the market. Whatever the solution, Alcoa remains on the spot and its every action will have to be governed by the knowledge that the whole record will be spread before the court again in five years.

When pending anti-trust cases are considered together, they all fall into the same pattern, a pattern that suggests that the Justice Department prefers more small competitors. This is made plain in the biggest case now being worked up, that against U. S. Steel, although the latter accounts for only about one-third of the nation's steel production. Certainly Big Steel is no monopoly, but it's big and bigness is disliked because of alleged ability to restrain competition.

The Common Pattern in Meat Packers' Case

The long-pending meat packers' case will ultimately show whether split-ups can be forced on the Big Three or Big Four that account for most of the business in a particular industry, even though no single company may be much bigger than the others. The present effort aims at breaking them up into several smaller concerns which would operate regionally rather than nationally.

The drive against bigness as it now unfolds is doubtless the fiercest in years and there is no telling how far it will go, and what strange results it will have, particularly if the concept of "effective" competition from the consumer standpoint is to become the main guiding principle. Certainly, in that event, the case against the Atlantic & Pacific Tea Company would not have a leg to stand on, for if the trust busters' ideas were to prevail, it would hurt, not help the consumer. It is one of the many paradoxes in our anti-trust policy which can only be explained by the obvious shift in the point of attack—bigness rather than monopoly, a far cry from the Sherman act.

Other special cases are in the works. One of them to divorce Western Electric from its parent, the American Telephone & Telegraph Company. DuPont is being sued to get rid of ties with General Motors and U. S. Rubber. And West Coast oil companies were asked only recently to stop marketing activities, both wholesale and retail. Main emphasis in all cases is the attack on bigness, whether directly or indirectly, leading to split-ups or divorcements on the theory that only this kind of remedy will restore competition.

Other actions on the anti-trust front are impending, notably in the form of the anti-merger bill under which the Federal Trade Commission would get effective power to stop any mergers which in its opinion may substantially lessen competition. Under this measure, the Commission gets the authority to prevent a company from buying out a competitor by purchasing the latter's assets. The law as written now permits the FTC to bar the purchase of the stock in a competing company; extending it to the purchase of assets will further strengthen the law in this respect.

Back of this is the perennial charge that big business is continually swallowing little business; that big business is getting bigger and little business is fast disappearing from the scene. Facts do not support this contention. And while a good deal of mergers have been effected in recent years, they were in many cases motivated by tax laws that discourage investment and encourage small businessmen to sell out, and to cash in on their capital gains. It's another paradox, this emphasis on the desirability of having more small businesses without doing anything about tax laws that threaten their continuance. In more than one way, while the Government is fighting big business, it is also pursuing policies that tend to enhance big business and impede or destroy small business, and work against the consumers' interests.

Other Concentrations of Economic Power

The anti-trust spotlight apparently will be focused increasingly on the power of the few, but big business is not the only case of concentration of power in the American economy. There is also Big Little Business, Big Labor and Big Agriculture. With each of these groups, concentrated power is employed as a means of influencing the efficiency of production, the quantity, quality and price of output, and the distribution of income. The maintenance of resale prices in retail distribution, the restrictive practices of trade unions, and the control of production and marketing in agriculture has the same purpose and effect as does the behavior of any industrial monopolist.

Yet big business busters have little or nothing to say about it, for obvious political reasons. Labor professes to oppose business monopolies, but shouts to high heaven against any proposal to curb its own monopoly power. Farmers have become so used to subsidies for output restriction and destruction that they regard them as constitutional rights. Thus it would seem that the "gluttons of privilege" are to be found not exclusively among the "economic royalists" but also among the "sturdy yeomen" and the "horny-handed sons of toil."

Monopoly is an evil and should be attacked wherever it is found. It is obviously unfair to attack it in one area only, and ignore or even support it in others. Above all, cracking down on (*Continued on page* 393)

R. F. C. ON WAY OUT?

By E. K. T.

APPOINTMENT of W. Averell Harriman as a special assistant to the President to pull together in smooth operation the varied worldwide enterprises in which the United States has been engaged since the outbreak of the war, dramatically illustrates the One World actuality, regardless of what name may be tagged onto these relationships. Harriman's will be a "working job," not a high-sounding title. And he'll be a one-man super-Cabinet, for he will resolve, in the name of President Truman, conflicts in many agencies having international operations. There is bi-partisan agreement that such a job needed to be created, that Harriman is the man for it.

WASHINGTON SEES:

Some of the more sanguine observers of federal fiscal activity look upon discussion of the future of Reconstruction Finance Corporation as the beginning point for a new attitude toward government lending, a possible reversal of the policies that have controlled for most of the past 20 years.

When RFC went to congress to gain broadened powers, it ran squarely into the suggestion that, far from expanding the agency, it be abolished entirely or at least reduced to a standby facility subject to revival, should the need be demonstrated. It was the first time a serious suggestion was made to reverse the course of government banking. And it drew backing from such outstanding financiers as Eugene Meyer, first RFC president, and Jesse Jones, his successor. They had handled the agency in its formative period, and they expressed amazement at the extent to which it had departed from its original purposes, that it had outlived the conditions which brought it into existence—inability or unwillingness of the normal channels of finance to handle business essential to the national economy. Messrs. Meyer and Jones told congressmen nothing they didn't know already; the record was filled with assurances that private lending institutions have long been ready to negotiate any sound business loan. But they added the indorsement of "elder statesmen of finance."

Linked to the RFC decision appears to be the "small loans to business" program, the growing move for more GI loans, the extent of government insurance of privately placed loans, and basic major policy.

DIFFICULTY is being encountered by the Republican group interested in keeping the McCarthy red hunt in the foreground as a major campaign issue. The open breakaway engineered by Senator Margaret Chase Smith was expected to be followed by a vigorous challenge from McCarthy's camp, but none came. Repetitious charges, invariably followed by denials from the accused parties, have been making the drive humdrum. Disclosure that the Wisconsin senator took $10,000 to write a brochure for a firm operating on government loans revealed no violation of law, but it caused great GOP embarrassment.

COLLAPSE of the McCarthy probe would bring on almost immediate withdrawal of State Secretary Dean Acheson from the cabinet. He has wanted to quit for many months but it was unthinkable that he would retire while his department was under fire. Appointment of W. Averell Harriman as the President's day-to-day adviser on international affairs will take much of the prestige from Acheson's official role; it is added inducement for him to step out. In fact there is a degree of belief here that creation of the special assistant's office was partly inspired by the hope of throwing the switch on Acheson before the political campaign becomes warm.

INSURANCE against the economic hazards of old age, on a much broader scale than at present, but continuing federal assistance at about the same ratio as at present, is gaining recruits on Capitol Hill. And it is not confined to the "brave new world" bloc of congressmen. On the conservative side, Senator Robert A. Taft is one of the more active leaders for the pay-as-you-go, pensions for all, movement. Senator Walter George of Georgia, to whom the democrats look for advice on matters of big finance, has joined up and may bring the right wing of his party into the camp. No action may be expected, however, until Social Security has been revamped.

As We Go To Press

Examination of testimony presented by railroad union spokesmen who are fighting the Donnell Bill for compulsory arbitration, reveals an undertone of employee desire to force nationalization of the rails. The briefs and oral arguments add up to these alternatives: 1. Give the unions unrestricted right to strike to enforce their demands. 2. Have the federal government operate the lines for the entire period of any unadjusted labor dispute.

George Harrison, speaking for his own (clerks) and 20 other unions with which the railroads do business, "warned" that taking away the strike right would inevitably lead to nationalization. But he didn't picture that eventuality with any particular note of horror. His solution for disputes that lead to strikes is what he termed "good faith" seizure of the roads by the government, with employees working for the government, at wages set by the government."

Whatever the purpose, congressional friends of the rail workers are warning them that the activities of the unions must be pointed to a purpose of transportation tie-up avoidance. These particular labor groups operate under a special statute that functioned well for years—the Railway Labor Act. Strikes are permitted, were frequently threatened, infrequently invoked. And whenever settled by government seizure of the roads, the strikes benefitted the workers. That may account for the demand for continued use of the weapon that leads to government operation.

Senator Robert A. Taft wants to write his own ticket on bi-partisan foreign policy. Essentially it would call for advising the republicans in congress of diplomatic moves before they are executed, not after; giving the GOP the right to help frame policy, amend it, reject it if desired. There never was bi-partisan foreign policy under the present Administration, says Taft with due appreciation of the part his republican colleague, Senator Arthur H. Vandenberg has played.

Less delicate in his reference to the John Dulles-Thomas Dewey brand of joint policy making, Taft remarked: "No policy can become bi-partisan by the appointment of republicans to executive office. To the Administration and its partisans in the press, bi-partisan foreign policy seems to mean any Administration foreign policy to which the adherence of some individual republican is obtained." Washington, ever on the hunt for the "political angle" in every turn of events here, infers: 1. Taft feels he may safely praise Vandenberg, but not Dewey. 2. Taft now feels his own election is insured, can return to the field of broader discussions.

Hinting the creation of a new political party to unite property owners and small businessmen, the heavily-financed National Association of Real Estate Boards is putting out "feelers" addressed to "the millions" of voters who, NAREB complains, cannot find voice in the expressions of republican, democratic, or any of the existing splinter parties. It is the most ambitious program ever attempted by what congressional committees have labeled the "real estate lobby," a designation vehemently rejected.

Existing trade associations who share NAREB thinking in whole or in part have been asked to spread the message. Contemplated, evidently, would be a party far to the right of the GOP. Tentative platform declares against rent control, public housing, socialized medicine, centralized power in Washington, social security ("a man should be encouraged to provide for his old age, instead of being forced into ultimate dependence upon government by an unfair tax system"), government competition with private business, and for a ceiling on federal taxing, spending, borrowing.

Continued voting for men rather than principles will lead to dictatorship, the realtors continue in the doleful mood. To ask whether any present party will support the "platform" above is to answer the question, says the message which poses the

query: "What should millions of small business people and property owners do to secure a voice in national policy now denied them by political parties?"

Almost as far to the right, but intended as an adjunct to the republican party rather than a third major political entry, is Fred A. Hartley's (Taft-Hartley Act) organization of a "Free Workers Political Action Committee." It's to match efforts with the CIO and AFL political action committees—even borrowed part of the name. Hartley has resigned a high-salaried trade association job to steer the project, which suggests ample financial backing.

The Hartley group eschews "big business, big labor, or big government control" over life in these United States. Dissatisfied with the present state of activity within the republican party, the former congressman warns the 1950 election will go by default unless there is a break away from "political cowardice or complacency." However, the Hartley platform reads like that of the GOP; against "the trend toward the socialistic state," against deficit spending, defending the Taft-Hartley Act, for free enterprise and for equitable taxation.

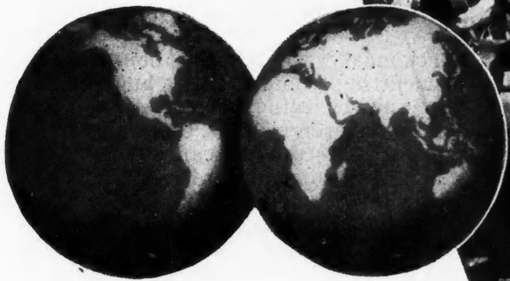
Expansion of the United States merchant marine seems to be a dead issue for this session of congress. In spite of hammering by congressmen, shipyard owners, and shipping unions that the American industry cannot be preserved for possible emergency use unless government contracts go into private yards, there is no White House nod in favor of pending legislation. In fact there is no major ship construction program in sight, although it appears likely that a bill will clear congress and get Presidential approval, providing for modernization, changeovers, and some experimental work—most of it in navy-owned yards.

The merchant marine expansion measure was approved by a house committee more than eight months ago. It was placed on the calendar, but no serious effort has been made to clear it through the rules committee and pave the way for action. A similar measure has been presented in the senate, hasn't even reached the committee hearing stage. President Truman made no provision for it in his budget message or his other talks to congress. Administration leaders in the house probably could get a rules committee indorsement but in view of White House apathy have adopted a "what's the use" attitude.

More inflation is ahead, says the National Retail Dry Goods Association—trade group with an excellent reporting system revolving around an active 7,500-member system of contact. Made up of retail outlets which are among the first to feel the impact of economic changes, NRDGA warns its membership to be ready for the results in terms of inventory and public reactions. The general public blames the handler, not the government agency which may be the real culprit, the retailers moan. Worse yet, says the Association, when the government sets in operation the things that cause inflation, it institutes controls which consumers regard as proof positive that high prices stem from retailers' greed.

GI's of World War 2 may still be in classrooms at government expense in 1956—10 years after the end of the conflict. The Bill of Rights has its final cutoff date that year, and only four per cent of those eligible (numerically, 300,000) haven't exhausted their claim for war service-earned education. Already seven million vets have taken educational courses under the GI Bill, and the cost has exceeded 10 billion dollars.

The loan program under the same legislation has an even later terminal date—1957. They've borrowed 11 billion dollars already, almost all of it to finance home purchase. Encouraging fact is that only seven-tenths of one per cent defaulted to the extent that the Veterans Administration had to make good. Despite widespread criticism of "52 Week Clubs," experience has shown the average veteran found a job and went off the readjustment allowance rolls after six weeks.



Political . . . . Economic News

AROUND THE WORLD

By V. L. HOROTH

BOOM IN AUSTRALIA — WILL THE AUSTRALIAN POUND BE UP-VALUED?

Wool buyers hurried to cover their position some two weeks ago when a report of an important cabinet meeting in Canberra started a fresh crop of rumors that the Australian pound—currently pegged at $2.24 or 20 per cent below the pound sterling —was about to be upvalued. The pros and cons of a currency appreciation have been debated ever since the New Zealand pound was brought up to parity with the pound sterling nearly two years ago.

Last September, it was generally thought that the Labor Cabinet, then in power, would take the opportunity afforded by the British pound sterling devaluation to eliminate the discount either wholly or partially. A partial upvaluation of 12½ per cent in terms of sterling was most commonly suggested. It would have made the Australian pound worth about $2.47. But London's action was so unexpected that Canberra apparently was completely taken by surprise.

Again, after the December elections, when the coalition of farmers and liberals, headed by Mr. Menzies, came to power, some action on the currency was anticipated, since the new Government had pledged itself to "restore the purchasing power of the pound," generally regarded as undervalued in terms of other currencies.

The latest crop of rumors is based on the premise that Australia will have to do something before long to curb the inflationary effects of an unprecedented boom which has sent prices and costs up more than 20 per cent within the last year. Australia at present is going through what some of her leaders call "the second great pioneering period." As a result of immigration from the British Isles, the transfer of thousands of displaced persons from the Continent, and a high birth rate, the population has been increasing at the rate of nearly 200,000 a year—equivalent to about 4 million a year for the United States. Whole new areas are being opened for farming and cattle-raising, new industries are being introduced and irrigation and a hydroelectric power development (Snowy River) almost as large as our own T.V.A. is begun. It will eventually generate almost as much power as all the existing Australian plants do now.

The fall of the Labor Government contributed to the boom. After eight years of constricting controls and planning, business was given freer rein. The removal of price restrictions has stimulated production, and at the same time consumers, no longer held back by rationing, are spending freely to make up for the war years. Briefly, the country is prosperous; gold production is expanding; a cheap Australian pound has improved the export opportunities for Australian manufacturing industries, especially in the nearby countries of Southeastern Asia. General prosperity is attracting capital from abroad, principally from Great Britain and Switzerland. Some of these funds of course are speculative, lying idle in anticipation of the pound's upvaluation.

Another factor that has led to current "flush" conditions in Australia has been the rise of prices, of wool in particular. "Australia still rides on the sheep's back"; the rise of wool prices by more than 75 per cent since last September in terms of the Australian pound and expanding production have had tremendous effect on the purchasing power of the rural areas. Wool prices are expected to be even higher in the Fall when the new clip will be auctioned off.

The Australian Country Party, which represents wheat growers and sheep raisers, is naturally against the upvaluation of the Australian pound. So are the Australian manufacturers who fear the loss of their competitive advantage over British goods and a loss of export markets in Southeastern Asia. The great majority of people, however, the workers, the salaried employes, merchants, etc.—over 60 per cent of the total population, according to a recent Gallup poll—are in favor of upvaluation, largely because the rapidly rising prices are cutting down the purchasing power of fixed incomes. A demand for higher wages is inevitable if prices continue to rise.

According to recent dispatches, a Liberal Party decision to buck the exporters and the farm bloc and upvalue the pound would be heralded by (1) a series of new long term contracts on two-way trade with Great Britain; (2) a significant shift in Australian trade to hard currency countries; and (3) a national clamor for a cut in present high living costs "at all costs". Though upvaluation rumors have recently been denied, the idea is by no means dead.

Prosperous Ceylon—No News, Good News

For nearly two and a half years now, Ceylon—a strategically situated island off the southern tip of India, inhabited by about 7 million Sinhalese, Tamils and Indians—has been a full-fledged self-governing Dominion. Although politically a new country, it has been singularly free of the social and political unrest which characterizes other new countries of Southeastern Asia. The main reason for this has been Ceylon's relative prosperity. The Island has not only the highest standard of living, but also the highest percentage of literacy in that part of the world. Though the communists hold about 20 seats in a parliament of 97, they are divided among themselves into Stalinist and Trotskyite factions.

Ceylon has not gone in much for manufacturing; neither has she any outstanding mineral resources. But the Island is fertile. It raises four great crops: rice to feed herself, tea, coconuts, and rubber. Ceylon was the principal source of natural rubber for the Allies during the war. The trees have suffered somewhat from overtapping, and hence production costs are higher than in Malaya or Indonesia.

But the current high price of rubber is a great incentive for the rehabilitation of the industry, and since Ceylon is free of the social and political problems that harass her neighbors, she is more likely to benefit from the inflow of capital than they are. The copra and coconut industry had their best years immediately after the war when vegetable oils were in short supply. With China out of the picture, the tea industry, which has suffered from chronic overproduction, is bound to get a lift.

Ceylon has been a great dollar earner, and one of the chief contributors to the sterling area's gold and dollar pool. Exports of tea to this country alone yield more dollars than she requires. If an example is needed of progress in a new country, Ceylon is a good candidate for the honor.

France Ready for Full Convertibility—Confidence and Optimism Returning

The area of "hard currencies" in Western Europe is about to be extended. To Switzerland, Belgium, and Portugal may be added two new countries, France and Italy. While in France a gold standard is out of question for some time, full dollar convertibility is anticipated later this year. It is, indeed, hard to believe that only one and a half years ago, in December 1948, francs were selling at over 500 to the dollar.

Today, the black market for dollars is non-existent and France is benefitting from not only a huge inflow of tourist money and returning French capital, but also from the inflow of foreign funds, especially from Switzerland, where investors appear suddenly to have discovered great possibilities in French African colonies. Only the budget deficit which reflects to some extent the unhappy state of affairs in Indo-China, and the $500 million gap in the trade with the dollar area, are the principal soft spots in an otherwise rapidly improving situation. In 1948 the dollar gap was more than one billion dollars.

How did the change come about? The turn for the better dates back to the Spring of 1949, when a 5% bond issue, offering exceptionally tempting conditions, helped to mop up some extra funds. Then the commodity prices ceased rising as both industrial and farm production made material progress to record levels and no serious labor unrest developed. The problem, now that another big crop is in prospect, is to prevent prices from declining in order to maintain the purchasing power of farmers for tractors and fertilizers.

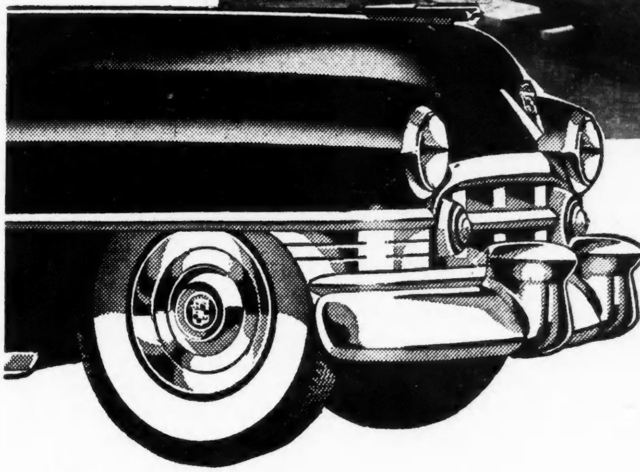
The decline of the gold price, reflecting the collapse of the demand for gold from the Far East, and the bold tight money policy of the Bank of France have also been important factors. Interest on unsecured credits is up to 12 per cent and even higher. With money tight, individuals and corporations began to sell their hoarded gold. But with the oriental markets dried up, there were no takers. As the price of gold declined, more sellers came in, eager to rid themselves of gold and to invest in first grade French securities yielding 7 per cent and more.

In the last six months, the price of gold in Paris has dropped more than 30 per cent. Meanwhile the dishoarding process continues. It has been estimated that some $3.5 billion in gold has been put away in France since 1939. To prevent the price decline from getting out of hand, the Bank of France has been buying the metal. With the Stabilization Fund already crammed with gold, special accounts in the Bank of France's balance sheet are beginning to show the effects of the turning tide. It seems that history is repeating itself. The great homeward rush of French funds and dishoarding of gold is similar to that following the successful stabilization of the franc by Poincare in 1928.

The End of Gasoline Rationing in Great Britain

British motorists were agreeably surprised when nearly four weeks ago on the eve of the popular Whitsun holidays, the Labor Government announced the end of gasoline rationing. But the end of rationing after eleven years does not mean that the average car owner in Britain will begin to "cruise" the countryside, as motorists do here. Gasoline in Great Britain costs about 36 cents per gallon, a considerable outlay in view of the fact that the average British salary and wage is about half that in this country.

What is significant, however, about the abolition of the gasoline rationing is that it was made possible by two American oil companies, Standard Oil of New Jersey and Caltex (jointly (*Please turn to page* 393)



GENERAL MOTORS

—A STUDY OF INTRINSIC VALUES

By STANLEY DEVLIN

Through a simple stock split proposal, General Motors Corporation management has brought into bold relief a striking picture of America's industrial growth. A capitalization of more than 88 million shares, enough for every man, woman and child in the country to have slightly more than half a share, seemed to stun the financial world for a time. Yet in its proper perspective such a development is not extraordinary. There is no reason, of course, why capitalizations should not reflect long range company growth or national economic gains.

Judged by widespread attention commanded by this announcement early in June, few investors had fully appreciated the scope of the corporation's activities. Although most persons have been familiar with General Motors' position in the automotive industry, not so many were aware that the company also is one of the leading manufacturers of household appliances and the largest producer of diesel locomotives. Non-automotive products have steadily grown in importance. Before closer examination of the corporation's widely diversified activities, it may be interesting to review financial aspects and to take a look at expansion in automotive lines, the principal field of operations.

The forthcoming two-for-one split will be the first since 1929 and the fourth in twenty-six years. In 1924 in connection with charter changes, there was a one-for-four "reverse" split. As result of stock dividends and splits, there will be outstanding after consummation of the change just recommended fifteen shares for each one share issued after the 1924 "reverse" split. Thus each share owned a quarter of a century ago would have a current market value of about $750. Dividends applicable to each of the shares held before the series of splits, on basis of $8 a share disbursed in 1949, would amount to $60 a share annually.

But such figures scarcely help in forming an idea of the corporation's size and industrial significance. Production statistics are more enlightening. In 1949, for example, General Motors produced 2,764,397 cars and trucks in the United States and in Canada, while the industry reported total output for the year of 6,534,000 units. Hence, GM accounted for 42.4 per cent of the total. The corporation's dollar volume reached a record level of $5.7 billion, an increase of 21 per cent for the year, and almost four times 1929 sales of $1.5 billion. Sales for the quarter just ended are expected to set a new all-time record for any three months in the company's history, exceeding easily the $1,642 million volume reported for the March quarter.

It seems significant, too, that the corporation's sales have grown more rapidly than for the industry as a whole. Whereas wholesale value of automotive products for 1949 somewhat more than doubled the total of twenty years earlier, GM cars and trucks comprising the bulk of sales probably more than tripled 1929 returns, inasmuch as total receipts were almost four times as large. This better-than-average progress finds support in the fact that GM has steadily improved its competitive position.

Growth of GM's Share of Auto Market

Whereas new car registrations twenty years ago approximated one-third of the nation's total, last year GM's ratio had grown to 42.9 per cent. Popularity of the Chevrolet models accounted in no small measure for this gain, since emphasis on low priced cars during the depression of the 1930's sent General Motors' registrations to 40.6 per cent of the country's total in 1937 and to 47.3 per cent in 1941. The GM trade position in trucks is just as strong, for registrations last year showed the corporation's

G. M. Unit Sales of Cars and Trucks

(Sales to dealers in U. S. and Canada and shipments overseas, and sales of foreign manufacturing subsidiaries.)

	Passenger Cars	Trucks & Coaches	Total
1950 (First 5 Months)	1,229,775	267,192	*1,496,967
1949	2,345,487	550,861	2,896,348
1948	1,668,499	552,494	2,220,993
1947	1,533,422	458,949	1,992,371
1946	868,412	360,622	1,229,034
1941	1,864,356	435,778	2,300,134
1939	1,411,788	315,298	1,727,086

* Production in U. S. and Canada only

models accounted for 44.3 per cent of the nation's total.

Although the company does not dominate the household appliance industry quite so completely as it does the automotive field, nevertheless Frigidaire division is a leading factor in production and distribution of refrigerators, ranges, water heaters, home freezers, kitchen cabinets, automatic washers, ironers, air conditioning units and numerous other items.

Despite its overwhelming size, General Motors is efficiently managed. Otherwise it could scarcely hope to achieve so high a net return on sales. Net income represented 11.5 per cent of sales in 1949, compared with 9.4 per cent in 1948, while before the war net ranged from about 10 to more than 15 per cent of sales. Efficiency appears to have been attained by placing responsibility for profitable operations in the hands of capable managers for each of more than thirty divisions.

In automotive manufacturing and assembly activities, there are nine divisions, while eighteen separate divisions are engaged in manufacture of accessories and parts, several of which could qualify as leaders in their respective fields. Motor car manufacturing is concentrated largely in Michigan, although assembly and body plants are strategically scattered near major markets. Parts and accessories, including a wide variety of essential components, are made in numerous plants all the way from Connecticut to Indiana.

Other activities include diesel engines, of which General Motors is a leading producer, diesel main line and switching locomotives and aircraft engines. The company also has its own financing and insurance units—General Motors Acceptance Corporation, one of the largest installment credit concerns in the world; and General Exchange Insurance as well as Motors Insurance Corporation.

Among other investments GM holds a 50 per cent interest in the Ethyl Corporation which supplies chemical ingredients used in producing high-test gasolines distributed by most leading petroleum companies. A 49 per cent interest in Kinetic Chemicals, Inc., valued at $2.1 million, was sold at the end of last year to E. I. duPont, deNemours, Inc., for $9.7 million, complying in part with an action brought by the United States Government seeking divorcement of affiliations between duPont on one hand and General Motors and United States Rubber on the other. Kinetic, which was founded in 1930 to produce refrigerants in electric refrigerators, has grown to substantial proportions and negotiations for its sale by GM to duPont had been started prior to beginning of Federal court action.

Although there is no secret regarding GM's dominance in the automotive industry, it is a subject that—for social and political reasons—is not emphasized. One of the objectives sought in the impending split is a broader market for the stock but doubtless also reduction in size of earnings and dividends expressed on a share basis. It seems much more sensible, from a business viewpoint, for example, to show net profit at $9 to $10 a share and dividends of perhaps $5 a share than to disclose results of $18 to $20 a share for the year with dividends of as much as $9 to $10. Management probably feels much less vulnerable to labor and political criticism if its shares fluctuate in the 45 to $55 a share area rather than at levels of $90 to $110 a share.

Big, But Also Highly Efficient

In a political atmosphere where corporations have become unwilling targets because of size, GM officials no doubt are alert to attacks on that score. Thus some economists and political observers have envisaged that in due course this vast industrial enterprise may separate its non-automotive activities and,

Long Term Operating and Earnings Record

	Net Sales (Millions)	Operating Income (Millions)	Operating Margin %	Taxes (Millions)	Net Income (Millions)	Net Profit Margin %	Net Per Share	Div. Per Share	Percent Earned on Invested Capital %	Price Range 1940-1950
1950 (First Quarter)	$1,642.6	$408.3	24.8%	$	$212.3	12.9%	$4.76	$3.00(a)	9.4%	*99⅛-68¼
1949	5,700.8	1,166.3	20.4	468.4	656.4	11.5	14.65	8.00	31.3	72¾-51⅞
1948	4,701.7	841.4	17.8	360.7	440.4	9.4	9.72	4.50	24.4	66 -50½
1947	3,815.1	590.3	15.4	265.9	287.9	7.5	6.24	3.00	19.5	65⅞-51⅞
1946	1,962.5	12.4	.6	(b)	87.5	4.4	1.76	2.25	6.1	80⅜-47¾
1945	3,127.9	170.9	5.4	25.5	188.2	6.0	4.07	3.00	15.0	77⅞-62
1944	4,262.2	446.2	10.4	270.4	170.9	4.0	3.68	3.00	13.1	66 -51¾
1943	3,796.1	427.3	11.2	251.3	149.7	3.8	3.23	2.00	11.7	56 -44⅛
1942	2,250.5	264.6	11.7	124.4	163.6	7.2	3.55	2.00	13.7	44⅝-30
1941	2,436.8	486.0	20.0	290.4	201.7	8.2	4.44	3.75	17.8	48½-28⅝
1940	1,794.9	306.9	17.1	125.0	195.7	10.9	4.32	3.75	17.8	56⅜-37¼
10 Year Average 1940-49	$3,384.8	$471.2	13.0%	$218.2	$254.2	7.2%	$5.56	$3.52	17.0%	80⅜-28⅝

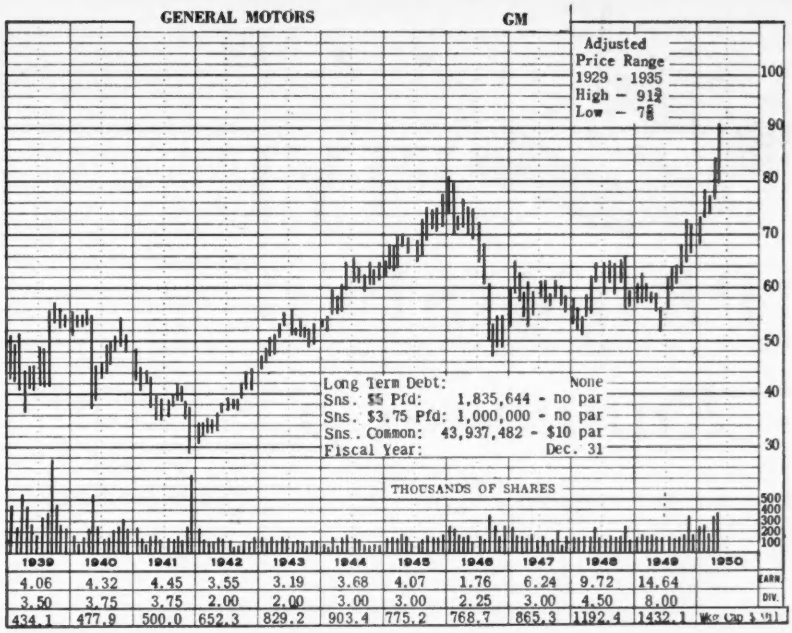
(*)—1950 Price Range to June 15.

(a)—Paid so far in 1950 to June 10.

(b)—Tax credit of $44.4 million.

in fact, may cut loose one or more of its popular motor car manufacturing concerns.

It may be noted, for example, that the Chevrolet division is one of the largest automobile manufacturing concerns in the country, comparing in size favorably with any independent and ranking even with Ford and Chrysler. Chevrolet produced 1,142,261 passenger cars last year, or approximately half of the GM total of 2,264,406 units. Chevrolet trucks numbered 402,059, or about 80 per cent of GM's volume. From this it may be seen that the Chevrolet division, as an independent manufacturer, would be among the largest.



Several accessory units, like Hyatt Bearings, Brown-Lipe-Chapin or Delco-Remy, would be substantial concerns if operating independently. And, of course, the Allison division would be a large factor in aircraft engines. The Electro-Motive division is one of the principal manufacturers of diesel locomotives and probably compares favorably in size with American Locomotive, Baldwin Locomotive Works and other railroad equipment manufacturers.

It is not to be inferred from these comments that General Motors may undertake any divestment program. No one has suggested it, nor contended that there is any lack of competition in the automobile industry or even that competition would be increased by separation of any GM units. As a matter of fact, it can be shown rather convincingly that General Motors produces automobiles more efficiently and under normal conditions could offer better values than companies dependent on outsiders for bodies, wheels and other components. Because GM units produce such a substantial part of the complete automobile, its profit margin is regarded as the highest in the industry, but the consumer also benefits.

The current discussion is not intended as a complete analytical study of General Motors in an attempt to evaluate its many operating divisions, however, and nothing more is being undertaken than a general exposition to indicate intrinsic values and the company's place in the industries it serves. Because of its dominant position, the management's merchandising policies as well as its labor relations are regarded as worthy of careful study by other related industries if not by competitors.

Management Optimism on Outlook

Recent agreement reached by management and representatives of the CIO-UAW on a five-year wage contract was regarded as significant not only for the company but for industry generally and for the national economy. Terms of the settlement suggested confidence on the part of company executives in continued favorable economic conditions and ability of the management to maintain its competitive position.

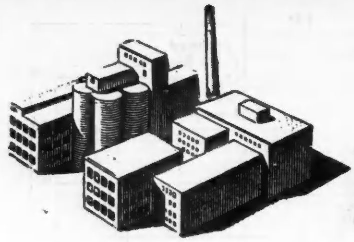
Optimism on the industry's outlook recently was expressed by Charles E. Wilson, GM president, in addressing the National Press Club on labor policies. Commenting on the forecast of "well over" 7 million motor cars as the industry's probably 1950 output, he added:

"The shortage of cars now is worse than it was last year or the year before. Even though production is running at a 35 per cent higher rate, dealers have fewer cars than they had last year."

To exploit the unexpectedly strong consumer demand, General Motors is producing passenger cars and trucks at a record rate. Output for June is expected to establish a new monthly record, surpassing the total of about 300,000 cars and trucks turned out in May. In the quarter just (*Please turn to page* 392)

Comparative Balance Sheets Items

ASSETS	December 31 1940	March 31 1950	Change
	(000 omitted)		
Cash	$ 282,925	$ 299,435	+$ 16,510
Marketable Securities	150,283	614,287	+ 464,004
Receivables, Net	126,138	306,801	+ 180,663
Inventories	265,000	769,472	+ 504,472
TOTAL CURRENT ASSETS	824,346	1,989,995	+ 1,165,649
Plant and Equipment	814,219	1,780,493	+ 966,274
Less Depreciation	411,601	1,023,534	+ 611,933
Net Property	402,618	756,959	+ 354,341
Investments	250,742	208,676	— 42,066
Other Assets	58,210	107,817	+ 49,607
TOTAL ASSETS	$1,535,916	$3,063,447	+$1,527,531
LIABILITIES			
Accounts Payable	$ 107,711	$ 262,325	+$ 154,614
Accruals	112,074	274,121	+ 162,047
Accrued Taxes	126,621	21,378	— 105,243
TOTAL CURRENT LIABILITIES	346,406	557,824	+ 211,418
Reserves	71,677	167,968	+ 96,291
Other Liabilities	24,275	102,011	+ 77,736
Preferred Stock	187,537	283,564	+ 96,027
Common Stock	435,000	441,043	+ 6,043
Surplus	471,021	1,511,037	+ 1,040,016
TOTAL LIABILITIES	$1,535,916	$3,063,447	+$1,527,531
WORKING CAPITAL	$ 477,940	$1,432,171	+$ 954,231
CURRENT RATIO	2.3	3.5	+ 1.2



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FIVE PROMISING *Runners-Up*

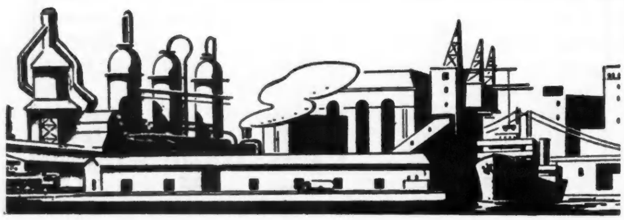
By Our Staff

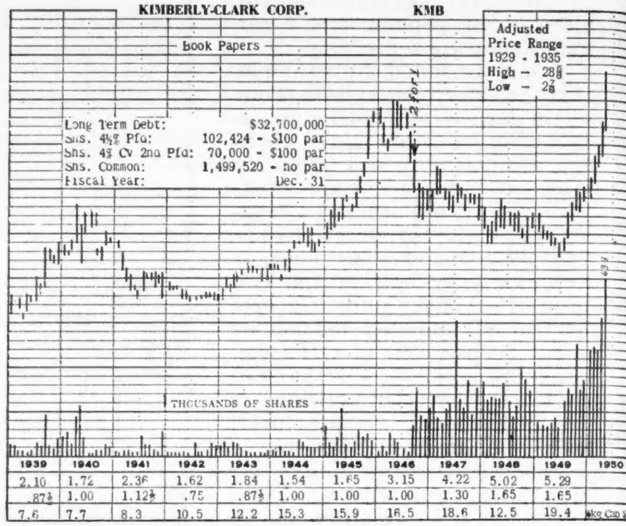
In every industry there are vigorous and efficiently managed concerns that, while not of top stature in their respective fields, nevertheless enjoy a well-entrenched and promising position. Some concerns in this category have forged to the front very impressively in postwar, with indications that continued dynamic progress may be expected of them as time passes. In the circumstances, carefully selected shares in these enterprises offer much promise of a stable or increasing yield, the main factor that establishes ground for eventual appreciation.

Since the two foregoing investment factors are a prime consideration with most of our readers, we have made a special search to uncover well qualified situations that deserve investor interest. As usual, we have first picked industries with marked growth potentials, but then proceeded to eliminate the obvious top rank concerns. This left in many instances a number of firms that might closely qualify for a sound secondary position and of these we finally chose one in each industry that for a number of reasons fitted most satisfactorily into our special pattern.

With all of the five concerns we selected, a good past record, fine management, aggressive policies, sound finances and promising growth potentials are a common characteristic. Additionally, an important factor in our decisions has been a study of current market prices for the respective shares. In this respect we have chosen equities only in moderate price brackets and seemingly not overvalued, on the basis of their fundamentals, in relation to others in their group or to the general market.

On this and following pages, we present charts and statistics to clarify our reasons for selecting these shares, supplementing these data with brief comments as to each company's outlook, its dividend record and the recent market action of the stock.





KIMBERLY-CLARK COPORATION

BUSINESS: A leading producer of white papers, cellulose wadding and newsprint. The business dates back to 1872. Among the company's popular brands are "Kleenex," "Kotex" and "Fibs."

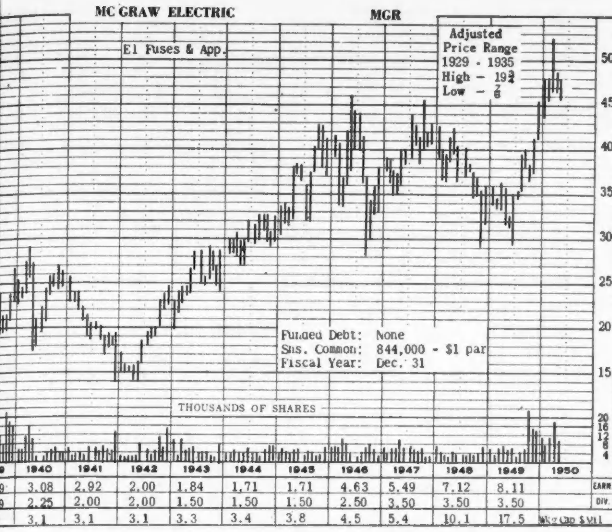
OUTLOOK: As a result of long experience, Kimberly-Clark has gradually rounded out its operations on a scale that should lend unusual stability to its business and enable the company to manufacture at lowest costs. Complete integration has been achieved through availability of vast timber reserves for pulp production to supply a string of completely modern mills. The company's specialized products seem to face no demand ceiling as the population increases and interesting new uses develop for paper items. In 1950, per capita consumption of paper will likely establish a new high record, with demand for its tissue specialties particularly strong. Last year, sales of Kimpak, crepe wadding product for materials packaging, accounted for almost 75% of total industry sales of similar items. With few interruptions, Kimberly-Clark's volume has climbed steadily from $13 million in 1932 to well over $110 million in 1948-49, aided by a $67 million improvement program in postwar. Net earnings have risen more than four-fold since 1938. All divisions operated at capacity in the first quarter of 1950, and in reflection of an optimistic outlook, plus an increase in quarterly earnings to $1.82 per share from 90 cents a year earlier, the management has predicted a satisfactory year. Annual earnings should exceed $6 a share, raising dividend potentials. Ample working capital of $19.4 million at the end of 1949 included cash and marketable securities aggregating $7.5 million.

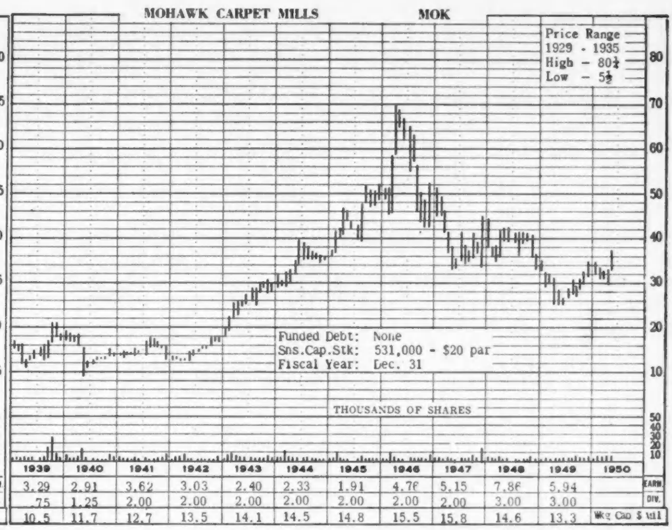
DIVIDENDS: Shareholders have received dividends regularly since at least 1928, except in 1932-33. The quarterly rate was lifted from 35 cents to 45 cents a share for the dividend paid April 1, and a year-end extra is a likely prospect.

MARKET ACTION: Recent price—36¾ compared with a 1950 range of high—38⅛, low—24. If a year-end extra of 25 cents is paid, as in 1949, the indicated yield is 5.5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 1,496	$ 5,408	+$ 3,912
Marketable Securities	1,639	2,100	+ 461
Receivables, Net	2,813	4,064	+ 1,251
Inventories	6,284	17,256	+ 10,972
Other Current Assets		1,895	+ 1,895
TOTAL CURRENT ASSETS	12,232	30,723	+ 18,491
Plant and Equipment	42,421	112,781	+ 70,360
Less Depreciation	15,749	37,183	+ 21,434
Net Property	26,672	75,598	+ 48,926
Investments	15,026	13,273	— 1,753
Other Assets	623	2,156	+ 1,533
TOTAL ASSETS	$ 54,553	$121,750	+$ 67,197
LIABILITIES			
Current Debt Payable	$ 1,000	$ 2,918	+$ 1,918
Accounts Payable	1,406	5,256	+ 3,850
Accruals	630	1,229	+ 599
Accrued Taxes	1,403	1,895	+ 492
TOTAL CURRENT LIABILITIES	4,439	11,298	+ 6,859
Long Term Debt	10,500	30,800	+ 20,300
Reserves	382	387	+ 5
Preferred Stock	9,963	17,242	+ 7,279
Common Stock	19,534	28,243	+ 8,709
Surplus	9,736	33,780	+ 24,045
TOTAL LIABILITIES	$ 54,553	$121,750	+$ 67,197
WORKING CAPITAL	$ 7,793	$ 19,425	+$ 11,632
CURRENT RATIO	2.7	2.7	....





McGRAW ELECTRIC COMPANY

BUSINESS: Company manufactures the "Toastmaster" line of automatic electric toasters, waffle irons, food warmers and water heaters, as well as a comprehensive assortment of electric fans, irons, coffee pots, hair driers, drink mixers, heating pads etc.

OUTLOOK: An unusually strong trade position has marked the substantial long term growth of McGraw Electric and augurs well for its future operations. Acquisition of three well established firms in related but not competitive fields about a year ago greatly broadened the company's market potentials and in no small manner should aid in stabilizing future volume and earnings. One of these enterprises, Bersted Manufacturing Company, was rated as the largest maker of portable electric fans. From a small beginning back in 1900, McGraw has consistently grown and now offers a well rounded line of electric appliances for homes and business concerns. As there are now more than 37 million wired homes in the United States and the number should notably increase, the outlook for the well-known quality products of McGraw is encouraging. As long as the national income remains at a high level and new home formation continues to expand, the company's sales and profits should be substantial. Currently, operations in all divisions are said to be on a capacity basis. Net earnings in the first quarter of 1950 amounted to $2.31 per share compared with $2.13 a year earlier, indicating the possibility that net for the full year may exceed the $8.11 per share reported in 1949. A sales growth from $6.9 million in 1939 to $69 million in 1949 attests to the dynamic character of this enterprise. McGraw has a snug capitalization of only 844,317 common shares and no funded debt, and its working capital position is very satisfactory. Sales of both, appliances and capital goods (the latter made by the Line Material Division) are reported at a high level. Those of the fuse division were up materially from last year for the first quarter and continue high.

DIVIDENDS: Except in 1932-33, payments have been regular since at least 1931. Since 1946, quarterly dividends have held steadily at 75 cents per share, supplemented by a 50 cents year-end extra for a total of $3.50.

MARKET ACTION: Recent price—48 compares with a 1950 range of high—52½, low—43½. The indicated yield is 7.3% and seems dependable.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949	Change
ASSETS		(000 omitted)	
Cash	$ 2,050	$ 5,124	+$ 3,074
Marketable Securities	....	668	+ 668
Receivables, Net	980	7,319	+ 6,339
Inventories	1,215	12,980	+ 11,765
TOTAL CURRENT ASSETS	4,245	26,091	+ 21,846
Plant and Equipment	1,824	14,748	+ 12,924
Less Depreciation	781	6,720	+ 5,939
Net Property	1,043	8,028	+ 6,985
Other Assets	143	523	+ 380
TOTAL ASSETS	$ 5,431	$ 34,642	+$ 29,211
LIABILITIES			
Accounts Payable	$ 244	$ 2,902	+$ 2,658
Accruals	118	1,443	+ 1,325
Accrued Taxes	772	4,239	+ 3,467
TOTAL CURRENT LIABILITIES	1,134	8,584	+ 7,450
Capital Stock	473	844	+ 371
Surplus	3,824	25,214	+ 21,390
TOTAL LIABILITIES	$ 5,431	$ 34,642	+$ 29,211
WORKING CAPITAL	$ 3,111	$ 17,507	+$ 14,396
CURRENT RATIO	3.7	3.0	— .7

MOHAWK CARPET MILLS

BUSINESS: One of the relatively few important manufacturers of Axminster, Wilton, Chenille, Velvet and plain woven floor coverings, with distribution enhanced by more than half a century's sales experience.

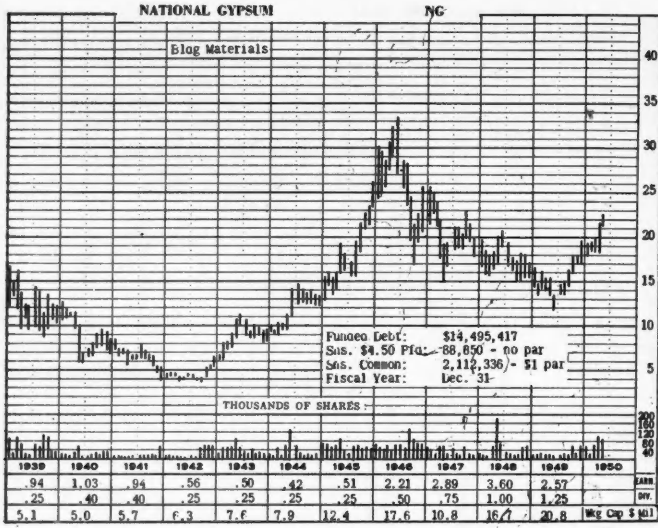
OUTLOOK: Perhaps the best evidence of continued heavy demand for the well-known products of Mohawk Carpet Mills is that sales of $17.9 million in the first quarter of 1950 represented the highest dollar volume for three months in the company's long history. Net earnings of $1.96 per share were reported for the period. Additional significance attaches to the circumstance in that high prices for wool forced several advances in carpet prices in previous months. A further rise of 5% has just been announced and should aid in maintaining margins. The current high level of national income and construction of many new homes seem unlikely to diminish much in the foreseeable future, enhancing the sales potentials of Mohawk. In general, this concern specializes in production of relatively lower cost carpets, a factor that improves its competitive position in the current market that stems largely from medium-income families. In point of annual sales, the company is outranked by several competitors, but in the course of a decade, volume has more than tripled, with earnings expanding at a closely similar rate in postwar. While to facilitate enlarged production, the company has spent considerable sums for plant additions, outlays in recent years have been mainly to install the most modern equipment. The financial position is satisfactory with a current ratio of about 2.3, and capitalization is confined to 531,000 shares of common stock. While due to the 1949 recession and the pressure of higher costs on margins, last year's profits fell below the 1948 peak figure of $7.86 a share, 1950 earnings show every promise of recovering to a high level since there is no sign of abatement of current heavy demand for floor coverings of every type.

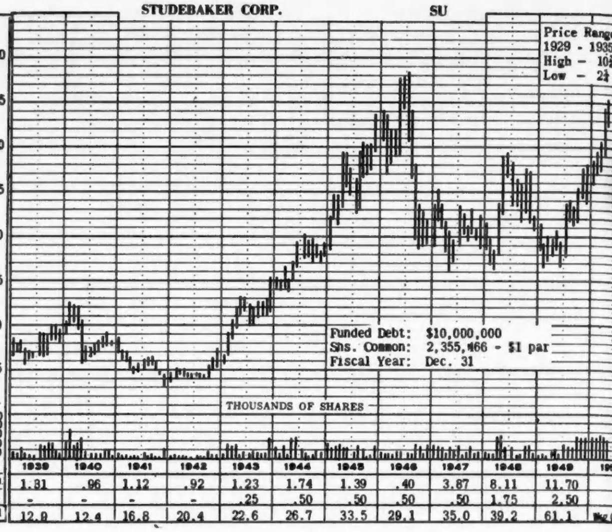
DIVIDENDS: In two depression years no payments were made, but otherwise distributions have been uninterrupted since 1923. The 1950 total should equal the $3 per share paid in 1948-49, and may be larger.

MARKET ACTION: Recent price—35¼ compares with a 1950 high of 37½ and a low of 30. The indicated yield is 8.6%.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31 1940	March 31 1950	Change
ASSETS		(000 omitted)	
Cash	$ 1,129	$ 2,321	+$ 1,192
Receivables, Net	3,627	5,546	+ 1,919
Inventories	8,930	15,736	+ 6,806
TOTAL CURRENT ASSETS	13,686	23,603	+ 9,917
Plant and Equipment	13,845	23,269	+ 9,424
Less Depreciation	8,320	11,483	+ 3,163
Net Property	5,525	11,786	+ 6,261
Investments	45	645	+ 600
Other Assets	589	1,515	+ 926
TOTAL ASSETS	$ 19,845	$ 37,549	+$ 17,704
LIABILITIES			
Notes Payable	$	$ 3,500	+$ 3,500
Accounts Payable	446	2,985	+ 2,539
Accruals	350	1,180	+ 830
Accrued Taxes	1,094	2,569	+ 1,475
TOTAL CURRENT LIABILITIES	1,890	10,234	+ 8,344
Reserves	1,600		— 1,600
Capital Stock	10,918	10,620	— 298
Surplus	5,437	16,695	+ 11,258
TOTAL LIABILITIES	$ 19,845	$ 37,549	+$ 17,704
WORKING CAPITAL	$ 11,776	$ 13,369	+$ 1,573
CURRENT RATIO	7.2	2.3	— 4.9





NATIONAL GYPSUM COMPANY

BUSINESS: The next to largest producer of building materials with a gypsum base, with a substantial output of paints, metal lath, calcimines, lime and industrial gypsum. 22 plants are operated in the United States and one in Canada.

OUTLOOK: Since organization in 1925, National Gypsum has constantly added new lines or acquired other businesses to expand its scope of operations, steps that combined with extensive plant improvements in postwar have aided a marked growth. Net sales of $59.4 million and net earnings of $2.57 a share in 1949, contrasted significantly with volume of $13 million and net of 94 cents a share in 1939. In the first quarter of 1950, sales reached a new historic peak of $16.3 million, while net earnings of 92 cents a share compared with 67 cents in the same 1949 period. It seems pretty clear that National Gypsums line of 150 building materials has become very popular with contractors and that throogh aggressive promotional efforts, a well entrenched trade position has been attained. The "Gold Bond" trade name is known from coast to coast. Through ownership or control of large gypsum deposits in Nova Scotia and a fleet of company steamships, an ample supply of raw materials is assured to maintain the prospective further long term growth by the company. With no early abatement of the current high level of industrial and home construction indicated, the company's market for its insulating and fire-resistant building materials should remain substantial and profitable. To finance a $36 million expansion program, the company placed itself in a comfortable position by borrowing $15.4 million on term notes at an average interest rate of about 3%.

DIVIDENDS: In the 1930s, all earnings were retained in the business, but payments have been regular since then. Dividends totaled $1.25 per share in 1949, including a year-end extra of 25 cents. In 1950, quarterly dividends of 30 cents have been paid.

MARKET ACTION: Recent price—22 compares with a 1950 range of high—22⅝, low—17⅝. A yield of about 6½% is indicated.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 1,464	$ 6,165	+$ 4,701
Marketable Securities	....	4,987	+ 4,987
Receivables, Net	2,480	6,133	+ 3,653
Inventories	2,748	7,034	+ 4,286
TOTAL CURRENT ASSETS	6,692	24,319	+ 17,627
Plant and Equipment	15,501	53,602	+ 38,101
Less Depreciation	2,276	12,569	+ 10,293
Net Property	13,225	41,033	+ 27,808
Investments	107	111	+ 4
Other Assets	871	1,005	+ 134
TOTAL ASSETS	$ 20,895	$ 66,468	+$ 45,573
LIABILITIES			
Current Dept Payable	$	$ 930	+$ 930
Accounts Payable	644	1,426	+ 782
Accruals	484	945	+ 461
Accrued Taxes	510	165	— 345
TOTAL CURRENT LIABILITIES	1,638	3,466	+ 1,828
Reserves	150	407	+ 257
Funded Debt	5,774	14,495	+ 8,721
Preferred Stock	6,155	8,885	+ 2,730
Common Stock	1,261	2,112	+ 851
Surplus	5,917	37,103	+ 31,186
TOTAL LIABILITIES	$ 20,895	$ 66,468	+$ 45,573
WORKING CAPITAL	$ 5,054	$ 20,853	+$ 15,799
CURRENT RATIO	4.1	7.0	+ 2.9

THE STUDEBAKER CORPORATION

BUSINESS: This company has had long experience in the manufacture of passenger cars and trucks, in postwar markedly forging ahead in expanding output of both classes of vehicles. It should be able to retain a goodly portion of its recent gain in the auto market.

OUTLOOK: The notable progress of Studebaker since its emergence from receivership in 1933 attests to an unusually able and aggressive management that rather brightly colors the company's future outlook. In contrast to dozens of automobile manufacturers that failed to survive in this highly competitive field, Studebaker pushed its annual volume up from $36 million in 1933 to a record $473 million in 1949, and in the first quarter of 1950 reported further sharp gains. Consolidated net income of $2.93 per share in the first three months compared with $2.21 in the related 1949 quarter. Indications are strong that the heavy demand for cars and trucks may continue well into the second half year, and then taper off at a somewhat lower level, but should continue relatively brisk for several years to come. In this event, Studebaker's extensive modernization program, now completed, will likely effect substantial cost savings as a partial offset to wage increases and reduced prices on its output. While net earnings may not long continue at current record levels, they could decline considerably and yet be considered very satisfactory. As the number of the company's cars and trucks in use expands, potentials for sales of parts and accessories will broaden, and these items permit fair profit margins. Working capital of $56.5 million on December 31, 1949 had increased $17.3 million or 44.2% in a single year, although funded debt was reduced by $3.2 million.

DIVIDENDS: To finance operations under boom conditions in postwar, dividends have been restricted to not much more than 21% of earnings, thus leaving room for improvement. Since 1943, annual payments have risen from 25 cents a share to a 1949 level of $2.50. The quarterly payment has just been lifted to 75 cents.

MARKET ACTION: Recent price—34 compares with a 1950 high of 35⅜ and a low of 26. Without allowing for a probable year-end extra, the current yield is around 7%.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31 1940	Mar. 31 1950 (000 omitted)	Change
ASSETS			
Cash	$ 10,635	$ 42,887	+$ 32,252
Marketable Securities	....	22,413	+ 22,413
Receivables, Net	547	10,480	+ 9,933
Inventories	7,972	36,771	+ 28,799
Other Current Assets	1,661	....	— 1,661
TOTAL CURRENT ASSETS	20,815	112,551	+ 91,736
Plant and Equipment	23,071	55,864	+ 32,793
Less Depreciation	6,404	17,845	+ 11,441
Net Property	16,667	38,019	+ 21,352
Other Assets	1,056	1,127	+ 71
TOTAL ASSETS	$ 38,538	$151,697	+$113,159
LIABILITIES			
Current Debt Payable	$	$ 500	+$ 500
Accounts Payable	4,749	26,203	+ 21,454
Accruals	1,881	24,103	+ 22,222
Accrued Taxes	1,764	628	— 1,136
TOTAL CURRENT LIABILITIES	8,394	51,434	+ 43,040
Funded Debt	5,841	9,500	+ 3,659
Other Liabilities	494	....	— 494
Common Stock	2,273	2,355	+ 82
Surplus	21,536	88,408	+ 66,872
TOTAL LIABILITIES	$ 38,538	$151,697	+$113,159
WORKING CAPITAL	$ 12,421	$ 61,117	+$ 48,696
CURRENT RATIO	2.4	2.2	— .2

Re-Appraising the Coppers Under Improved Outlook

By H. S. COFFIN

The outlook for the leading copper producers has substantially brightened in the second quarter, extending the improved conditions characteristic of the first three months. In consequence, a number of factors suggest that 1950 earnings of the better situated miners and refiners of the red metal may recover from last year's decline to a higher level than seemed probable not very long ago.

As recently as April 1, it looked as if demand and supply for copper had become rather nicely balanced, with little to indicate that the year-end recovery in price to 18½ cents a pound from last year's low of 16 cents might experience much change either up or down during the rest of the current year. But progressive rises in the price to 19½ cents on April 18, 20½ on May 18 and more recently to 22½ cents a pound, show very conclusively that demand relative to supply has expanded more sharply than was anticipated and has created quite a tight situation. As matters stand, the price presently is only a cent a pound below the postwar high of 23½ cents.

In a few quarters the view has been expressed that to some extent the price uptrend has been attributable to fabricators who stepped up inventory accumulations in fear that Congress might reimpose a copper tariff on June 30, through failure to extend the present law that has suspended a two cents per pound duty. Restoration of the duty naturally would tend to lift prices, and as everyone knows, Washington is looking in every direction to increase its revenues. There are, however, much stronger reasons to account for firmer quotations in copper.

While it is true that copper fabricators have expanded their holdings of the red metal to as much as 380,000 tons, a higher level than for quite a long time past, they find they need the increased accumulation as a result of intensified demand for their finished products and a rather clear prospect that incoming orders will be substantial for many months to come. As long as building construction, the automotive industry, the public utilities and the manufacture of innumerable electrical appliances continue to create strong demand for this essential material (largely in excess of domestic productive capacity) and while foreign demand also remains substantial, firm prices are entirely logical.

Further tending to force copper prices upward in recent months has been the influence of Government stockpiling policies. Federal purchases at the rate of around 15,000 tons monthly have in no small manner supported the upturn in over-all demand. Furthermore, there are strong indications that in the coming fiscal year, Washington will accumulate copper for the emergency reserve at an increased rather than diminished rate. Statistically, domestic industrial consumption has been running at a level of around 115,000 tons monthly, in contrast to domestic output of only 85,000 tons, including both primary and secondary copper supplies. This leaves a gap of 45,000 tons monthly or 540,000 tons a year that has to be filled by imports, considering the amount absorbed by stockpiling.

Labor Unrest at Chilean Mines

Contributing to tight copper supplies in recent months has been continued labor unrest in Chile that has interrupted production repeatedly in one of the world's largest mines, normally producing 15,000 tons a month. This important mine is a subsidiary of Anaconda Copper Mining Company and ordinarily ships substantial tonnages to the United States. Since March, workers in this property have been on strike for most of the time and operations at this writing are at a standstill. Kennecott Copper Company also was tied up for a while by a strike in its big Utah mine, but about a week ago reached an agreement with the union.

U. S. imports of copper in April declined notably

to a level of about 28,000 tons, thus pinching over-all supplies in the domestic market. Barring further strikes in domestic mines, however, it is probable that copper production by American mines will expand in coming months. Since the start of 1950, a number of operations have been put on a six-day weekly basis, and the uptrend in copper prices undoubtedly will induce many higher-cost miners to step up their output, since at the current price level they can operate profitably even though they no longer enjoy the benefits of Government subsidies. As for the low-cost producers, they of course have every incentive now to turn out every ounce of metal they possibly can, because no one can accurately foretell how long copper prices will remain at or around the current improved level, despite the encouraging prospects for at least six months to come.

In more assured manner than seemed likely at the end of the first quarter, accordingly, earnings of the leading copper miners and smelters should exceed those of 1949. The absence of inventory write-offs should tend to offset advances in wage costs and freight rates to some degree, while operating margins will benefit from higher prices that appear pretty certain to hold through the third quarter, at least. It is possible, of course, that demand may slacken somewhat in the midsummer months when vacation schedules tend to curtail industrial production, but this is by no means certain.

Much will hinge on supply and demand factors as 1950 unfolds, and the outlook for the final quarter. Since the latest price boost of 2 cents a pound was made after June 1, earnings in the second quarter will have little opportunity of reflecting the advance, but reports for the third quarter will likely create considerable encouragement. Some improvement, even in the current quarter, should result from the gradual uptrend in price from 18½ cents a pound to 20½ cents.

It should also be realized that production of lead and zinc in many cases supplements total output of the copper miners. Prices of these non-ferrous metals have risen substantially this year from their 1949 lows and early 1950 levels. Lead, for example, recently sold at 12 cents a pound compared with 10½ cents in the forepart of 1950, while the price of zinc advanced more rapidly to 15 cents from 9¾ cents earlier in the current year. The importance of lead and zinc in the operations of individual copper companies of course varies a good deal.

Early in our discussion, we mentioned prevailing uncertainties over what Congress may decide to do in regard to reimposing a copper tariff. Beyond much question the delay in reaching a decision has been partly due to widely divergent views on the subject from different divisions in the copper industry. Some of the large miners have long held out for a protective duty, although under current conditions total domestic production can meet only about two thirds of indicated demand.

Spokesmen in this group aver that foreign production of around 2.2 million tons of copper exceeds foreign demand by approximately 400,000 tons, and since wage costs abroad are lower than here and currency devaluations have now entered the picture, it seems apparent that a two cents a pound import levy would not deter foreign producers from supplying the excess required at domestic prices less the tax. Without the import tax, the fear is expressed that foreign imports will displace an equivalent amount of domestic production, and that this might occur even with a two cents tax.

On the other side of the controversy, there is heavy pressure from some big fabricators to refrain from reimposing the import tax in order to assure ample copper supplies and to hold prices down as low as possible. This group has pointed out to Congress that the American public will be penalized by imposing an import tax on a vital commodity of which we do not have an adequate domestic supply. It is held that suspension of the tax saves consumers about $150 million a year. Furthermore, as of March 31, 1950, domestic producers' stocks had shrunk to 60,276 tons, representing less than half a month's supply at recent

Statistical Data on Leading Copper Companies

	Sales 1949	Sales 1948	Operating Margins 1949	Operating Margins 1948	Net Per Share 1949	Net Per Share 1948	1st Quar. 1950	Div. 1949	Div. Yield‡ %	Recent Price	Price Earnings Ratio†	Price Range 1949-50
	($ millions)		%									
American Metal Co. Ltd.	$312.0	$279.3	1.7%	2.3%	$ 4.22	$ 4.25	$ .79	$2.00	6.1%	32⅝	7.7	34¾-22¼
American Smelting & Refining	215.1	250.8	20.1	23.4	8.22	13.47	.84	5.00	8.8	56¼	6.8	57⅜-39¼
Anaconda Copper Mining	334.1	425.0	13.5	20.5	3.14	6.16	.91	2.50	7.6	32½	10.3	35¼-25⅛
Calumet & Hecla Consol. Copper	25.4	29.1	(d)	7.6	(d) .34	.54	.46(a)		....	6⅛	....	6¼- 3½
Cerro De Pasco Copper	29.4	29.4	15.2	16.7	1.62	2.03		.75	3.6	20¾	12.8	21⅝-14¾
Granby Consol. Mining	6.9(b)	6.0(b)	14.0	15.3	1.89(b)	1.62(b)	.16	1.75	21.3	8¼	4.3	10 - 5¾
Howe Sound	19.3	20.0	14.0	22.2	3.67	6.16	.86	2.00	5.3	37⅝	10.2	46½-31¾
Hudson Bay Mining & Smelt.	37.4(b)	39.0(b)	—	—	4.61	5.60	1.04	4.00	10.0	39⅞	8.6	47⅞-33½
Inspiration Consol. Copper	11.5	17.0	21.8	36.6	1.67	3.87	.54	1.50	9.8	15⅜	9.2	18¼-11⅝
Kennecott Copper	246.3	348.1	29.5	42.3	4.45	8.67	1.54(e)	4.00	6.9	57⅞	13.0	58½-40
Magma Copper	7.5	8.0	4.4	18.7	.22	2.58	.51	.25	1.4	17	7.7	20 -10¾
Miami Copper	22.1	22.0	22.6	24.8	3.06	3.05	....	1.75	11.4	15¼	4.9	15⅞- 8⅞
Phelps Dodge	194.3	242.5	28.9	35.4	6.37	9.56	1.43	4.00	7.8	51	8.0	53⅛-36¼
U. S. Smelt. Ref. & Mining	37.5	43.1	5.6	14.7	1.51	5.62	(d).69(c)	1.25	3.2	37¾	25.0	46½-33¼

‡—Based on 1949 dividends.
†—Mased on 1949 earnings.
(a)—Includes approximately $.33 per share gain on sale of Stumpage and timberlands.
(b)—Canadian Currency.
(c)—2 months ended February 28, 1950.
(d)—Deficit.
(e)—Company estimate.

delivery rates and a long term low in a peace year.

We cite these varying viewpoints, as investors should understand what cross currents affect the operations of the relatively few large copper concerns that dominate the domestic industry. A few companies produce about 85% of domestically refined copper and through integration control about 70% of all fabricated copper products. It can readily be seen that while higher prices for copper obviously tend to increase profits of the miners, they also tend to narrow the margins of their subsidiary fabricators unless finished product prices can be correspondingly lifted, a task rendered difficult under highly competitive conditions.

In other words, an advance in copper prices is by no means a complete advantage to such well integrated operators as Anaconda, Kennecott and Phelps Dodge. As for the matter of import duties, Anaconda's large operations in Chile could suffer somewhat from a tax on that portion of its production exported to the U. S., whereas a protected status might improve its earnings potentials on large domestic output. Phelps Dodge frankly favors an import tax since its operations are entirely domestic.

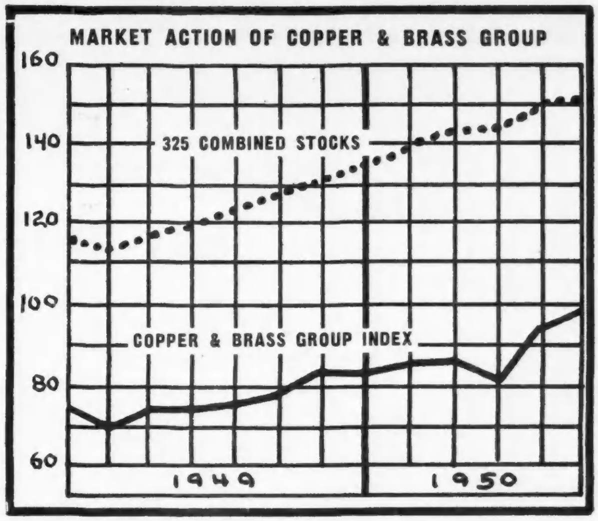
We have compiled some statistical data on leading copper companies that we present on the appended table. Relative sales, operating margins and net earnings are shown for 1948 and 1949, as well as earnings in the first quarter of 1950. Supplementary information regarding dividends, share prices, yields and price-earnings ratios is also provided. Within space limitations we will now discuss a few of the individual situations.

Anaconda Copper Mining Company, one of the world's two largest producers of the red metal, was adversely affected by the record drop in prices in the forepart of last year, a uniform experience throughout the entire industry. A 21% decline in volume in 1949 caused net earnings to fall about 47% to a level of $3.14 per share from $6.16 in the preceding year. Operations in the first quarter of 1950 produced net earnings of only 91 cents a share compared with $1.61 a year earlier when copper prices were much higher.

Second Quarter Should Reflect Higher Prices

As for some months past now, the price of copper, lead and zinc has improved, it seems certain that the company's earnings in the second quarter will be reported as more satisfactory, and the trend should continue upward in the third three-month period, barring prolonged labor troubles. Benefits in the current year should appear from outlays of $5.4 million in 1949 for improvements in the company's mines and $5.7 million for enlarging and modernizing the American Brass Company, a wholly owned fabricating subsidiary. Last year Anaconda spent $21 million on its Chilean properties, but the program will not be completed for some time yet. A very rich treasury position, with $120 million holdings of cash and Government securities, fortifies the prospect of stable dividends at the quarterly rate of 50 cents a share paid since the middle of last year, and if the present improved outlook for the industry holds, payments may be liberalized or a year-end extra paid. Dividends totaled $2.50 in 1949 and $3.50 a share in 1948.

Phelps Dodge Corporation's near term outlook has markedly improved, due to the favorable course of copper prices in recent months. Considering all handicaps in 1949, this company made a good showing last year with net earnings of $6.37 per share, although



under much better operating conditions in 1948 $9.56 per share was earned. When copper was at 23½ cents a pound in the first quarter of 1949, per share earnings were $2.52, but the 18½ cents price that prevailed early in 1950 reduced net to $1.43 a share in the recent first quarter. Comparisons in the second and third quarters should be far more encouraging and on an increasing scale, because of insistent demand for both refined copper and a long list of sheets, tubes, wire, rods and other fabricated items.

In the last ten years, Phelps Dodge has increased its output of copper from around 300 million pounds to almost 500 million, while in the last seven years production of zinc and lead has expanded even more sharply. In less than two decades, capital expenditures have aggregated more than $128 million dollars, including $106 million for additions and improvements at the mines, $16.3 million at the fabricating plants and about $5.3 million for the refinery division. Despite these large outlays, the balance sheet of Phelps Dodge reveals no term debts or preferred stock, holdings of cash and Government bonds totaling $89 million exceed all current liabilities more than twice over, and if all current assets were included, by a ratio of better than three to one.

Good efficiency is disclosed by an operating margin of 28.9% in such a difficult year as 1949. On the whole, it is hardly a surprise that although 1949 earnings declined substantially from the boom levels of 1947 and 1948, the coverage of dividends at an annual rate of $4 per share was ample. Quarterly payments of $1 a share should easily continue through the current year. The long term dividend record of Phelps Dodge is impressive, considering the volatility of copper prices and demand; except in 1932-33, payments have been regular since 1917.

Evidence of an improved outlook for Kennecott Copper Company has been provided in the first two quarters of 1950 by action of the directors as to dividends. Caution in 1949 was shown by quarterly payments of 25 cents a share, plus specials of 50 cents in three periods and one of $1.50 in the final quarter. The March, 1950 dividend, though, was a straight 75 cents, while in June, $1 per share is being distributed. This traditionally low-cost copper producer is well situated to benefit in the current year from strong demand and advanced prices. While earnings for the first quarter have not been (*Continued on page* 391)

THE REVITALIZED Machine Tool Industry

By GEORGE W. MATHIS

At the half-way mark of 1950, there is growing evidence in the industrial machinery industry that one of its more sensitive components—machine tool and miscellaneous machine builders—has entered a period of moderate, yet persistent sales expansion.

While in no sense approaching even near-boom proportions, nevertheless the over-all trend in the industry has brightened sufficiently to suggest that earnings will rise irregularly in 1950 and in early 1951, at least, and that dividends will be maintained at about the 1949 rates.

For this reason—and in view, too, of the fact that few machine tool shares have followed the bullish pattern established by the market averages—investors may find it advantageous to retain positions in these equities for the time being at least.

Industry characteristics of machine builders vary greatly. Investors must consider, in any appraisal they make, that machinery and tool makers are dissimilar groups; that while there is a certain overlapping throughout the industry, machine tool and allied miscellaneous companies must be segregated from builders of industrial and specialty machinery.

Because this discussion is concerned mainly with machine tool and miscellaneous machinery makers, emphasis will be on that portion of the business. Here the trend of shipments has revealed the first reversal since the wartime peak of $1,322,000,000 was established in 1942.

Statistics compiled by the National Machine Tool Builders Association show that from this all-time high, shipments slanted progressively downward to $1,180,000,000 in 1943, dropped abruptly to $497,500,000 in 1944 and then declined in more orderly manner in each succeeding year to reach a low of about $242,000,000 in 1949.

At the beginning of 1950 it looked very much as if the downtrend would continue, that the current year would be a repetition of 1949. But after a disappointing January and February, March shipments turned upward sharply, April proved a reasonably satisfactory month, and present indications are that the Summer and Fall period will bring acceleration of the recovery.

As it is, new orders for machine tools in May climbed to a four-year peak while shipments for the month rose to the highest point since December 1948, according to the monthly report of the National Machine Tool Builders Association. This reflected a continued brisk buying of machine tools evident in recent months. Foreign orders, too, showed some gain, and at the end of May, the ratio of all unfilled orders to shipments stood at 5.2 to 1.

1950 Shipments Should Exceed $300 million

Thus barring sudden and unforeseen changes in demand from important customer industries, a reasonable forecast is that machine tool shipments in 1950 will exceed $300,000,000, the largest since 1946. Although some industry sources contend that shipments may exceed the $325,400,000 level of 1946, attainment of this goal will be difficult in view of the continued spottiness of export business.

Contributing most importantly to the recovery has been the record-breaking production in the automobile industry, decentralization trends in certain mass production lines with increasing demand for

special types of machinery, and a modest acceleration of buying by aircraft builders. Replacement demand has not yet been on a large scale, but is now reported to be expanding. Mounting cost-consciousness is aiding this trend.

Manufacturers, up against tightening competition and the need for finding new ways to effect production economies, are buying more machine tools. Rising costs, and the fact that the consumer wants more for his dollar thus are broadening the market for new and efficient machinery.

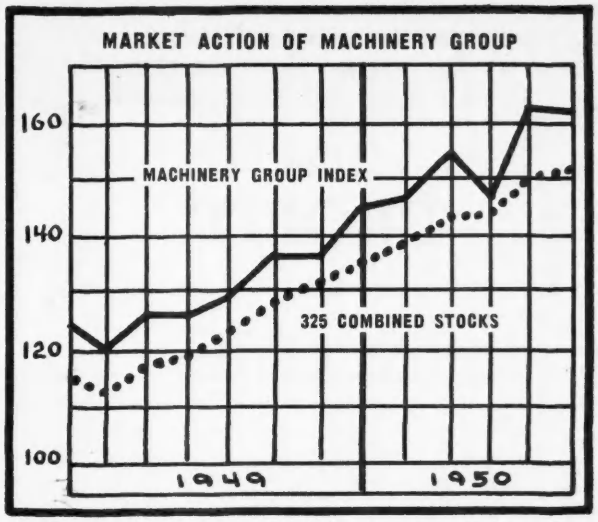
High speed production tools for the automobile industry have attracted the heaviest inquiries. With output largely concentrated around automatic transmissions and high compression engines, there has been a marked revival of buying in the Detroit area. This shows little sign of waning as car manufacturers set their sights on new 1951 models.

Uncertainty Over Foreign Business

Although the domestic picture has many bright spots on a growing front, considerable uncertainty has developed over foreign business. This stems chiefly from the fact that currency devaluation by numerous countries had the effect of boosting American prices sharply to buyers abroad, giving tool builders in Great Britain a marked competitive advantage.

That potential foreign demand for machine tools remains large cannot be disputed, but in order to buy, foreign customers need dollars. Also, under Marshall Plan aid and the ECA program, considerable stimulus has been imparted to European production of machine tools.

Not all aspects of the foreign situation are un-



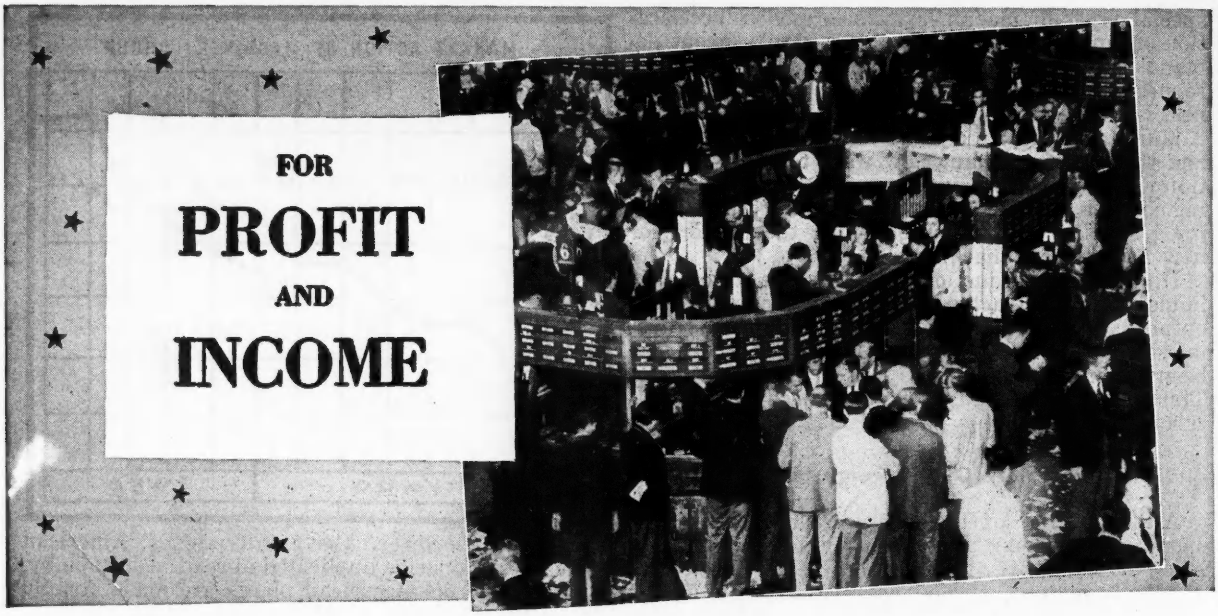
favorable, however. Certain types of American machines cannot be duplicated abroad. Additionally, shipments from American plants are made strictly in accordance with schedules and orders. Furthermore, deliveries are generally quicker. Finally, if the military aid program to Western Europe is enlarged, as now appears likely, then perhaps as much as $35,000,000 or $40,000,000 of new machine tool business may flow to American corporations.

Much is heard in the trade about the effect of obsolescence as a continuing constructive factor. The National Machine Tool Builders Association has stated that there are something like 380,000 machine tools operated in the (*Please turn to page* 394)

Statistical Data on Leading Machinery and Machine Tool Stocks

	Net Sales 1949 (Millions)	Net Sales 1948 (Millions)	Net Per Share 1949	Net Per Share 1948	Net Per Share 1st Quarter 1950	Div. 1949	Div. Yield‡ %	Price Earnings Ratio†	Recent Price	Price Range 1949-50
American Machine & Foundry	$17.0	$25.0	$ .26	(d)$ .03	$ .26	$ .80	5.1%	60.0	15½	17¼-11¾
Babcock & Wilcox	153.5	149.5	15.24	15.63	....	4.00	6.9	3.8	58	62 -41
Blaw-Knox	66.2	68.7	2.51	2.87	.20	1.25	8.0	6.2	15¾	17 -10⅞
Bliss, E. W.	20.5	27.2	1.08	3.34	.32	1.00	8.0	11.6	12⅝	14⅞- 8⅜
Bucyrus-Erie	61.8	69.1	4.07	3.54	1.22	2.00	11.3	4.3	17¾	20⅛-13½
Buffalo Forge	19.0	19.0	6.20	6.57	1.02	4.40	11.7	6.0	37¼	39¾-26½
Bullard	9.8	8.8	1.89	1.58	.65	1.75	8.3	11.1	21⅛	23⅝-12¼
Caterpillar Tractor	254.8	218.0	4.89	3.66	2.58(a)	1.75	4.1	8.6	42¼	44⅝-26⅛
Chicago Pneumatic Tool	28.3	31.8	7.94	11.21	1.79	2.50	8.7	3.5	28½	31½-21¾
Cincinnati Milling Machine	33.2	34.9	2.65	2.70	.43	1.75	5.8	11.3	30	32½-20
Ex-Cell-O	31.5	24.2	8.26	6.27	1.34	2.60	6.9	4.5	37½	44 -24
Fairbanks Morse	77.6	98.7	5.70	9.59	....	2.50	5.7	7.6	43⅜	45¾-34
Food Machinery & Chem.	81.7	73.4	1.72	2.34	.14	1.00	3.7	15.4	26¾	30½-20⅜
Foster Wheeler	82.0	80.2	13.24	11.95	....	1.00	2.9	2.5	34⅛	36¾-19¼
Greenfield Tap & Die	8.2	10.7	1.35	3.04	.82	1.20	7.4	12.0	16¼	17⅜-11⅞
Ingersoll Rand	106.8	116.9	7.40	8.84	1.94	5.75	8.7	8.8	65¾	72½-55
Link Belt	88.1	106.0	9.73	14.37	1.69	5.00	8.1	6.2	61¼	67 -52½
Mesta Machine	47.1	33.6	5.30	5.03	....	3.50	8.6	7.6	40½	43⅛-30⅛
Monarch Machine Tool	6.6	8.0	2.65	3.05	.48	2.00	7.2	10.4	27¾	29⅝-21¼
National Acme	14.2	14.6	2.55	3.01	.63	2.00	8.0	9.8	25	27⅝-17¾
Niles-Bement Pond	21.0	22.3	1.25	1.55	....	.60	5.6	8.5	10⅝	12 - 7¾
United Engineering & Fdry.	63.2	52.4	6.83	6.08	....	3.75	8.8	6.2	42¼	46⅛-34⅝
U. S. Hoffman Mach.	14.3	18.1	(d).32	.89	.06	....	......	......	10¼	11½- 6⅜
Van Norman	10.2	13.2	.10	1.49	.05	.70	7.2	97.5	9¾	11⅞- 7⅞
Worthington Pump & Mach.	88.8	92.0	5.11	5.17	1.11	1.00	4.8	4.0	20⅞	21⅜-11¾

(†) Based on 1949 Earnings
(‡) Based on 1949 Dividends
(a) 4 Months Ended April 30, 1950
(d) Deficit



July

The "traditional summer rise" is usually figured from the May low, or close, to the highest level within either July or August. It is, of course, much easier to establish an apparent "seasonal bias" that way than if you measured by the high of one of the latter months, without a choice of both. And if you take net change for either month as a whole, rather than the high within the month, there is no tendency toward "summer rise" to be found in the past record. Looking back over the chart for 30 years, July has been a non-violent month: a month of generally moderate to modest net change in market position. Over the period reviewed the Dow industrial average rose in July in 11 instances, declined in 8 and showed only slight change in 11. Thus, the net change was upward for July in only slightly more than one chance out of three. It was down or little changed in every year of the great 1942-46 bull market. It was little changed in as vigorous a bull-market year as 1928, and as vigorous a bear-market year as 1930. It was better in the not too colorful bull-market year 1927 than in 1929. For percentage change, one of the best Julys was in 1932, one of the worst in 1931. This year 1950 should be one in which July lives up to its reputation for non-violence either way.

Range

Comparing the high of July or August with the May close, it may be that the market can show some gain this summer, as it has in the great majority of past years for the entire history of the Dow-Jones average. However, to expect much of a rise within this period, unless there is a sizable corrective sell-off first—more of a sell-off than has been seen up to this writing—is certainly to expect a great deal. There has now been more than a year of advance, without a single reaction amounting to as much as 5%. At the recent high, this uncorrected rise amounted to 66.78 points in the industrial average, or more than 41%. Only the first "leg" of the 1942-46 bull-market exceeded it in scope and duration (and not by a great deal), running from April 28, 1942, to July 14, 1943, for a rise of 53 points, and 57%. Then came a zig-zag correction running into November, or for some 4 months, amounting to 16.25 points and 11.2%. In points, the widest annual range in the 1942-1946 bull market was 49.38 in 1945.

Groups

Groups recently showing independent strength in a softish market were automobile stocks, oils, ethical drugs, steels, rayon and mail-order stocks. Others acting moderately better than the market include auto accessories, building materials, chemicals, coppers, foods, office equipment, paper and natural gas. Some groups performing rather poorly are proprietary drugs, gold mining, shoes, shipping, cigarette stocks and motion pictures. Others which have been performing somewhat worse than the general list are aircraft manufacture, air transport, beer, coal, printing and publishing. radio broadcasters, video stocks, variety chains, and food chains.

INCREASES SHOWN IN RECENT EARNHNGS REPORTS

		1950	1949
Columbia Pictures	9 months April 1	$1.89	$ .34
Celotex Corp.	6 months April 30	.61	.41
General Shoe Corp.	April 30, Quarter	1.28	.74
Caterpillar Tractor	5 months May 31	3.32	1.95
Houston Lighting & Power	12 months May 31	3.96	3.58
Kelsey-Hayes Wheel Co.	May 31 Quarter	2.67	1.53
Sterchi Bros. Stores	May 31 Quarter	.70	.51
Warner Bros. Pictures	6 months Feb. 25	.80	.77
First National Stores	52 weeks April 1	8.55	7.21
Truax-Traer Coal Co.	April 30 Quarter	.81	.70

Acting Well

However, it is a market of stocks, with wide divergences even within most groups. The auto group is now perhaps the most emphatic example of this. To say that the group is faring well is true; but General Motors and Chrysler account for most of that. Some individual stocks which have been behaving well recently include, in addition to the auto issues cited, National Tea, Libbey-Owens-Ford, Mathieson Chemical, Motor Wheel, Reliable Stores, Republic Steel, Rheem, Union Bag & Paper, Hiram Walker, Youngstown Sheet & Tube, Byron Jackson, American Viscose, Dow Chemical, American Cyanamid, Armco Steel, Merck, Bethlehem Steel, Caterpillar Tractor, Shell Oil and United Fruit.

On The Other Hand

Stocks which have recently sagged to new lows for the year include American Tobacco, Beech Nut, Bucyrus-Erie, Lerner Stores, Liggett & Myers, Pet Milk, Republic Pictures, Spencer Kellogg, Twentieth Century-Fox, U. S. Lines, Dome Mines, Ingersoll Rand, Loew's, Newberry, Reynolds Tobacco, Sterling Drug, Warner Brothers, Eastern Air Lines, Eastman Kodak, Ex-Cell-O, Morrell and Purity Bakeries.

Two-Way

On an over-all basis, the action of the rail list has been negative and disappointing for a good many months. However, even when it comes to rails, the market is a two-way street. Some rails, in short, have been performing much better than others. Some of the best have been and are Atchison, Canadian Pacific, Southern Pacific, Seaboard, Delaware & Hudson and Illinois Central. Among the many issues behaving not so well are Pennsylvania, New York Central, Norfolk & Western and Great Northern.

Reactions

The old rule of thumb was that intermediate reactions cancelled anywhere from one third to two thirds of the preceding phase of advance; and that they lowered the industrial average by roughly 7% to 15%. The rule, based on actual experience, was never precise enough to be of much use, even if you could time the start of an intermediate decline. Two things can be said. First, cancellations of much more than a third of the prior advance are unlikely in the modern regulated markets. Second, if they occur they will be due to business doubts or other disturbing factors, rather than to the technical condition of the market. The detailed record of intermediate corrections in the 1942-1946 bull market may be of some interest. The first one ran about four and a half months from July, 1943, into November, dropped the industrial average 11.1% and cancelled about 32% of the prior rise of 53 points from the 1942 bear market low in 14½ months. The second ran for about two months from July 10, 1944, lowered the average by only 5.2%, but cancelled 36% of the prior rise of 21 points from the November 30, 1943, intermediate low of 129.57. The third one ran only one month from June 26, 1945, lowered the industrial average by a little less than 5%, but cancelled nearly 31% of the prior rise of 26 points from the September 14, 1944, reaction low of 142.96. The fourth and last one ran for a little over three weeks from February 2, 1946, lowered the average by 11.2% and cancelled about 41% of the prior rise of about 46 points from the July 26, 1945, intermediate low of 160.91. What came after the May, 1946, high was, of course, not a reaction; but a bear market, although a minor one.

Application

The four intermediate corrections of the last major bull market took the Dow industrials down an average of about 8% from its highs, and retraced an average of 35% of the prior phases of advance. Should correction of real scope have started from the June 12 high of 228.38, and should it compare with average results in 1942-1946, it would halt around the general vicinity of 210. This, of course, is not a prophesy. The sell-offs cited ranged from just under 5% to above 11%. An 11% reaction would put the average down to about 203; a 5% sell-off only to about 217. This column's guess is that, if an intermediate correction did not start from the June 12 high, it probably will start within the third quarter. In short, that it will not be delayed much further. The guess, further, is that it will be slightly less in scope than the average of the 1942-1946 corrections heretofore cited. If it were much more than that, "another look" would be in order. But there will in any event be some time for that, on the zig-zag pattern which follows completion of the first significant sell-off.

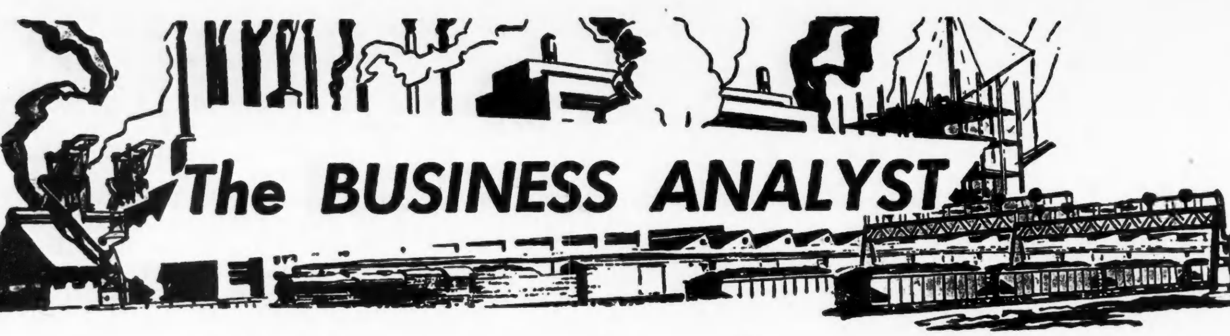
Finance

The small-loan business is relatively stable, but better in good times than bad. This is contrary to popular impression. So is the fact that the loss rate is quite low. Some investors are prejudiced against small-loan stocks on "moral grounds", much as they are prejudiced against liquor stocks. That seems rather foolish, for nearly all banks have small-loan departments, competing actively with Household Finance, Beneficial Industrial Loan and other such finance companies specializing in small-loan business—yet banking is regarded as a most respectable business. For investors desiring a good income return, with a smaller degree of risk than attaches to about 98 common stocks out of a hundred, either Household Finance or Beneficial Industrial Loan can be recommended. Household has just raised its dividend rate to $2.40, after paying a 10% stock dividend last December. At current

(*Please turn to page* 392)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

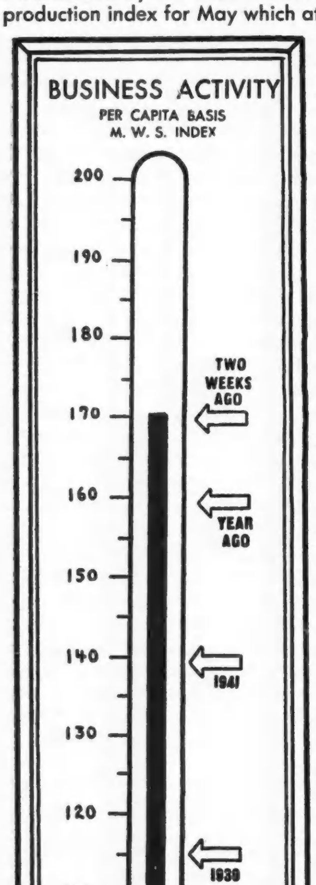
		1950	1949
Safeway Stores	20 weeks May 20	$1.95	$2.14
Stevens (J. P.) & Co.	April 29 Quarter	1.45	1.48
Allied Stores Corp.	April 30 Quarter	.84	1.08
Dresser Industries	April 30 Quarter	.32	.72
Macy (R. H.) & Co.	13 weeks April 29	.38	.46
Distillers Corp.—Seagrams Ltd.	April 30 Quarter	1.06	1.11
Smith (A. O.) Corp.	April 30 Quarter	1.36	1.70
Lake Shore Mines Ltd.	March 31 Quarter	.18	.23
Davega Stores Corp.	Year March 31	2.44	2.90
El Paso Natural Gas	12 months April 30	1.73	2.36



What's Ahead for Business?

By E. K. A.

The recent quickening of the business pace has found further confirmation by the Federal Reserve Board's publication of its production index for May which at 193% of the 1935-39 average has met the most optimistic expectations. This compares with 189% in April and 174% for May of last year. The Board says that the figure for June should be even higher, perhaps reaching the postwar peak of 195% established in October and November of 1948.



The latest jump has been made primarily possible by record automobile production and building construction. Steel output in May set an all-time record but even that may be surpassed in June. Appliance manufacture also went higher. Soft goods did not lag, with textiles, paper and chemical production moving up. For better perspective, it's interesting to note that the production index is now some 11% above a year ago, and 32 points above last year's July low of 161%.

Also from the Reserve Board came a new survey of consumer buying intentions, confirming good chances for record sales this year for houses, autos, television sets etc. Buying plans for furniture, washing machines and refrigerators seem to be at least as extensive as a year ago, the Board added, but encouraging as sales prospects seem, they could still go sour. Hence the Board's cautionary note: "The extent to which these buying plans will be carried out will depend considerably on what happens to jobs, incomes and prices, the availability of goods and credit and the general domestic and international situation.

The latter of course is not readily predictable though the imminence of a shooting war in the foreseeable future is generally discounted. As to the other reservations, nothing threatening is in sight. Employment is gratfyingly up, incomes are high and there are few indications of any drastic rise in consumer prices that could arouse sales resistance. And availability of goods and credit can hardly be disputed. Most goods are in ample supply, and so is credit.

Rising building costs could of course put a crimp in the construction boom, eventually if not now, but high activity in this field is virtually guaranteed for the remainder of the year with every prospect that new homes started in 1950 will total between 1,200,000 and 1,250,000 units, well above the 1949 record of 1,025,100. The forecast for a new high came from the Labor Department after eyeing the sizzling pace of home building since the start of the year. Work was initiated in May on 140,000 new houses, 14,000 more than in April and 50% above May 1949. In the first five months this year, thus, 538,000 units were launched while last year, the half million mark was not topped until July.

Recent Price Trends

Altogether, business is well into the biggest summer it may ever have enjoyed and shortages, particularly in steel, non-ferrous metals and lumber seem to act as the only ceiling on the boom. As to steel, no easing is likely in the third quarter though demand and supply should be balanced by the end of the year. Lumber is likely to continue firm and tight for the rest of the year even if the building pace (new starts) begins to slacken after July, as it likely will. Non-ferrous metals continue to "carry the torch" for inflationary tendencies in the price structure, with copper particularly tight. Government stock piling of metals could force prices still higher.

Against this, weakness has cropped out in a number of imported commodities including rubber, coffee, pepper; but special factors were operating to bring this about. Generally there is nothing yet to indicate the imminent start of broad downward movement in prices just as nothing has occurred to cause belief that we are on the threshold of a new inflationary price spiral. But before the year is over, prices should again ease off moderately as shortages disappear and demand in many areas will experience seasonal let-ups. In other words, the price structure, despite recent pressures, will not run away, which is just as well. Ultimately lower prices will be necessary to sustain high level activity for any length of time, by enabling the consumer public to absorb the tremendous output of our factories. And output has been constantly gaining.

The Business Analyst

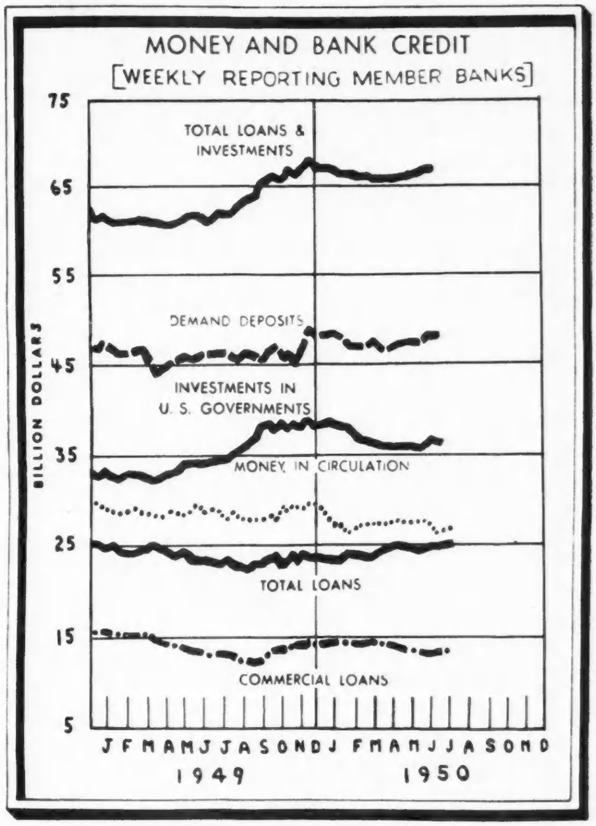
HIGHLIGHTS

MONEY AND CREDIT—All three of our major common stock indexes declined during the week ended June 16, following a new high by the High Priced Stock index the week before when seven of the 46 group indexes also made new highs for various periods, as tabulated on the second page following. This reaction from the markets high touched three weeks earlier, amounted to only 4.1 points yet was the largest encountered in the twelve months of rising prices, and carried our Combined Average of 325 active common stocks down to the lowest level in eight weeks. New York bank stocks, high grade preferred stocks and foreign government dollar bonds were less sensitive to the wave of profit taking, stopping short of the lows touched four weeks earlier. High grade rail bonds were unchanged on the fortnight, but corporate bonds of lesser rating sank to the lowest level since last December 17. The bank-eligible Victory 2½s advanced fractionally on the fortnight; but the restricted issue eased off to a new low since last June 25. Mildly inflationary tendencies were shown in the operations of weekly reporting banks for the fortnight ended June 7. Reserves expanded $107 million, demand deposits $121 million, holdings of non-Government securities $79 million and total loans $108 million, accompanied by a further rise of $100 million in the Government's gross debt. The Federal budget deficit for the fiscal year to June 14 reached $1,235 million, compared with a budget surplus of $1,934 million for the corresponding period last year. Treasury and Federal Reserve officials are becoming uneasy over the inflationary effects of the Administration's fiscal orgy, but think it's up to the commercial banks to stop competing with the Government in advancing credit to private enterprise. Debt service was met in full last year on 57.5% of the $4.3 billion total of foreign government dollar bonds outstanding, compared with only 54.5% in 1948. Aggregate cash interest received for 1949 coupons amounted to 2.14% on the total of bonds outstanding at the end of the year, compared with the average contractual rate of 4.59%. In 1948, cash interest payments averaged 2.13%, against 4.79% called for.

TRADE—Department store sales during the fortnight ended June 10 picked up to 3% above a year ago, thereby reducing to 2% the cumulative decline for the year to date. Warmer weather appears to be reviving demand for soft goods. U. S. exports and imports each fell off about $60 million in April, leaving our foreign trade gap practically unchanged at $215 million. Mexico's foreign trade deficit of $125 million last year was almost wiped out by expenditures of 305,000 American tourists, nearly half of whom came from Texas. At the U. S. International Trade Fair, to be held in Chicago from August 7 to 20, 1,500 exhibitors from 39 Marshall Plan nations (including the U. S., but lacking Luxembourg) are reserving 200,000 square feet of space for displays valued at $5,000,000 to $10,000,000.

INDUSTRY—Construction and automobile industries are still booming; but overall business activity eases off a bit with approaching vacation season. Industrial production in Europe has recovered to 120% of pre-war (135% outside of Germany). Here in the U. S. we're up to 192%, according to the F. R. B.; but of course our factories came through the war unscathed.

COMMODITIES—Spot and futures indexes, after climbing to new highs for more than a year, reacted sharply during the week ended June 16.



Larger than normal seasonal declines in bank debits, refinery runs and electric power output during the week ended June 10 led to a drop of around a point in the nation's physical volume of **Business Activity,** thereby narrowing to 10.3% the margin of increase over a year ago. Business slow-downs during the summer vacations period will probably not be so extensive this year as a year ago when many concerns with fading order backlogs were glad to cut expenses by closing down for a few weeks.

* * *

This publication's **Business Index** rose in May to an even 200% of the pre-war 1935-9 average—2.4 points ahead of April, and 9.3% above May, 1949. On a per capita basis, the index registered 170.4% of the 1935-9 average, compared with 169.3 in April, and 159.2 for May of last year.

* * *

According to the Federal Reserve Board, factory output in April was 7.61% greater than a year earlier whereas, according to Commerce Department findings, production worker man-hours were up only 3.37%. This indicates a rise of 4% in production **Efficiency.** A somewhat greater gain in efficiency is indicated by our index for business as a whole, which shows

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	May	1.13	1.11	1.18	1.55
Cumulative from mid-1940	May	396.4	395.3	382.0	13.8
FEDERAL GROSS DEBT—$b	June 14	256.3	256.2	251.5	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	June 7	47.5	47.5	46.2	26.1
Currency in Circulation	June 14	27.0	27.1	27.4	10.7
BANK DEBTS—13-Week Avge.					
New York City—$b	June 7	9.06	8.96	8.56	4.26
93 Other Centers—$b	June 7	13.20	13.12	12.11	7.60
PERSONAL INCOMES—$b (cd2)	Apr.	219.6	225.5	212.6	102
Salaries and Wages	Apr.	141.7	140.0	138.1	66
Proprietors' Incomes	Apr.	42.8	43.5	45.0	23
Interest and Dividends	Apr.	18.1	17.9	17.1	10
Transfer Payments	Apr.	17.0	24.1	12.4	3
(INCOME FROM AGRICULTURE)	Apr.	17.8	18.4	20.8	10
POPULATION—m (e) (cb)	Apr.	151.2	151.0	148.5	133.8
Non-Institutional, Age 14 & Over	Apr.	110.5	110.4	109.4	101.8
Labor Force	Apr.	63.5	63.0	62.3	57.5
Military	Apr.	1.33	1.35	1.49	1.89
Civilian	Apr.	62.2	61.7	60.8	55.6
Unemployed	Apr.	3.5	4.1	3.0	3.8
Employed	Apr.	58.6	57.5	57.8	51.8
In Agriculture	Apr.	7.2	6.7	7.8	8.0
Non-Farm	Apr.	51.5	50.9	50.0	43.8
At Work	Apr.	49.9	49.2	48.6	43.2
Weekly Hours	Apr.	40.8	41.2	41.5	42.0
Man-Hours Weekly—b	Apr.	2.04	2.03	2.02	1.82
EMPLOYEES, Non-Farm—m (lb)	Apr.	42.8	42.3	43.0	37.5
Government	Apr.	5.9	5.8	5.8	4.8
Factory	Apr.	11.5	11.5	11.6	11.7
Weekly Hours	Apr.	39.7	39.7	38.4	40.4
Hourly Wage (cents)	Apr.	143.3	142.4	140.1	77.3
Weekly Wage ($)	Apr.	56.89	56.53	53.80	21.23
PRICES—Wholesale (lb2)	June 13	156.7	157.4	154.8	92.5
Retail (cdlb)	Apr.	184.1	183.8	189.2	116.2
COST OF LIVING (lb3)	Apr.	167.3	167.0	169.7	100.2
Food	Apr.	196.6	196.0	202.6	113.1
Clothing	Apr.	185.7	185.0	192.5	113.8
Rent	Apr.	123.1	122.9	120.3	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Apr.	11.10	11.07	11.14	4.72
Durable Goods	Apr.	3.76	3.74	3.47	1.07
Non-Durable Goods	Apr.	7.34	7.33	7.67	3.65
Dep't Store Sales (mrb)	Apr.	0.70	0.73	0.84	0.42
Retail Sales Credit, End Mo. (rb2)	Apr.	9.75	9.54	7.45	5.46
MANUFACTURERS'					
New Orders—$b(cd) Total	Apr.	18.3	19.9	17.6	14.6
Durable Goods	Apr.	8.1	8.6	7.6	7.1
Non-Durable Goods	Apr.	10.2	11.3	10.0	7.5
Shipments—$b(cd)—Total	Apr.	18.3	20.2	15.9	8.3
Durable Goods	Apr.	8.4	9.1	6.1	4.1
Non-Durable Goods	Apr.	9.9	11.1	9.8	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Apr.	54.9	55.1	58.0	28.6
Manufacturers'	Apr.	31.0	31.1	33.9	16.4
Wholesalers'	Apr.	9.4	9.3	9.3	4.1
Retailers'	Apr.	14.5	14.7	14.8	8.1
Dept. Store Stocks (mrb)	Apr.	2.3	2.1	2.2	1.4
BUSINESS ACTIVITY—1—pc	June 10	171.6	172.4	158.3	141.8
(M. W. S.)—1—np	June 10	200.8	201.7	182.0	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 383)

a rise of 6.7% for April over a year ago, during the week following the Census sampling, against a rise of only 1% in total man-hours worked in non-farm activities, thereby pointing to a gain of 5.6% in overall business efficiency. For the second week of May, the gain was 5.8%. But it would be a mistake to credit all gains in efficiency to greater mechanization and improved methods of distribution. Most lines operate more efficiently at capacity than when only partly occupied. There is an old saying that if you want something done, get a busy man to do it.

* * *

It goes without saying that **Employment** conditions are still improving rapidly under the upsurge in business activity. Employment was up a million in May, with unemployment down a half million. Unemployment is now about 200,000 smaller than a year ago, while non-farm employment is up nearly two million. There is already a scarcity of skilled workers in a few localities, and the labor market would be much tighter if employers were not generally following a policy of lengthening the hours of their present staffs rather than incur the expense and loss of production involved in hiring and training new recruits.

* * *

It is interesting to find that the **Inventory** building which has recently aroused comment has been confined thus far to the merchandising field. Manufacturers' inventories at the end of April were a trifle lower than at the end of March and still $3.1 billion, or 5%, smaller than a year ago. The only inventories to show a small increase over March and over April of 1949, were wholesalers'.

* * *

Changes in prices of **Metals** showed mixed trends for the fortnight ended June 16. While steel scrap was off $3 and tin ⅞ cent, zinc and copper each staged a further advance of 2 cents, while stocks of the latter held by producers and smelters at the end of May were at the lowest peacetime level since April 1937. The Munitions Board still plans to taper off it's lead buying after July 1, but insists that defense needs require stepped up stockpiling of zinc despite the present tight supply-demand situation in that metal.

* * *

News has leaked out that the Treasury and Federal Reserve Board are becoming uneasy over **Inflation Prospects.** Mainly responsible, of course, for this year's upsurge in prices is a too liberal Government-sponsored expansion in building and other

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Apr.	189	187	179	174
Mining	Apr.	142	144	148	133
Durable Goods Mfr.	Apr.	221	212	212	220
Non-Durable Goods Mfr.	Apr.	179	180	162	151
CARLOADINGS—t—Total	June 10	796	710	808	833
Manufactures & Miscellaneous	June 10	375	337	339	379
Mdse. L. C. L.	June 10	83	73	92	156
Grain	June 10	44	37	49	43
ELEC. POWER Output (Kw.H.) m	June 10	5,921	5,632	5,300	3,267
SOFT COAL, Prod. (st) m	June 10	10.8	9.3	13.1	10.8
Cumulative from Jan. 1	June 10	202	199	245	446
Stocks, End Mo.	Apr.	37.6	28.0	65.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	June 10	5.2	5.1	4.9	4.1
Gasoline Stocks	June 10	119	121	117	86
Fuel Oil Stocks	June 10	39	39	66	94
Heating Oil Stocks	June 10	45	42	60	55
LUMBER, Prod.—(bd. ft.) m	June 10	800	741	708	632
Stocks, End Mo. (bd. ft.) b	Apr.	6.4	6.3	7.2	12.6
STEEL INGOT PROD. (st) m	May	8.55	8.21	7.60	6.96
Cumulative from Jan. 1	May	39.0	30.4	39.5	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	June 15	277	226	151	94
Cumulative from Jan. 1	June 15	5,122	4,845	3,532	5,692
MISCELLANEOUS					
Paperboard, New Orders (st) t	June 10	220	254	153	165
Whiskey, Domestic Sales (tax gals.) m	Apr.	4.4	5.6	3.9	8.1
Anthracite Coal Production (st) m	May	4.4	3.4	4.4	3.8
Portland Cement Production (bbls.) m	Apr.	18.1	14.2	17.7	14.9
Natural Rubber Consumption (lt) t	Apr.	57.8	60.8	47.8	54.3
Do., Synthetic	Apr.	38.0	37.7	36.5	0.5

PRESENT POSITION AND OUTLOOK

loans and subsidies. Instead of attacking the disease at its source by slowing down the rate of expansion in Government credit, the banks (still privately operated) are being told that they must gradually withdraw from the field, and leave it to Uncle Sam, who is less particular about credit risks. In other words, the banks should be content with confining their investments to low-yielding Government securities, thereby supplying funds for the Government to take over their historic credit functions.

* * *

Of course bank credit has been recovering a little this year, thanks to last summer's reduction in reserve requirements to the lowest percentages since 1936; but of the $4.4 billion expansion in earning assets of weekly reporting member banks for the fiscal year to June 7, $3.4 billion was in holdings of U. S. Government securities. Before World War I, in 1914, 96% of the commercial bank's total earning assets were at work supplying credit to private enterprise. Now the proportion is down to 46%. Another generation of erosion at this rate would degrade our private banking network into a vast holding concern for U. S. securities, with inevitable Government ownership.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. l—Seasonally adjusted Index (1935-39—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np.—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands. *—1941; November, or Week ended December 6.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

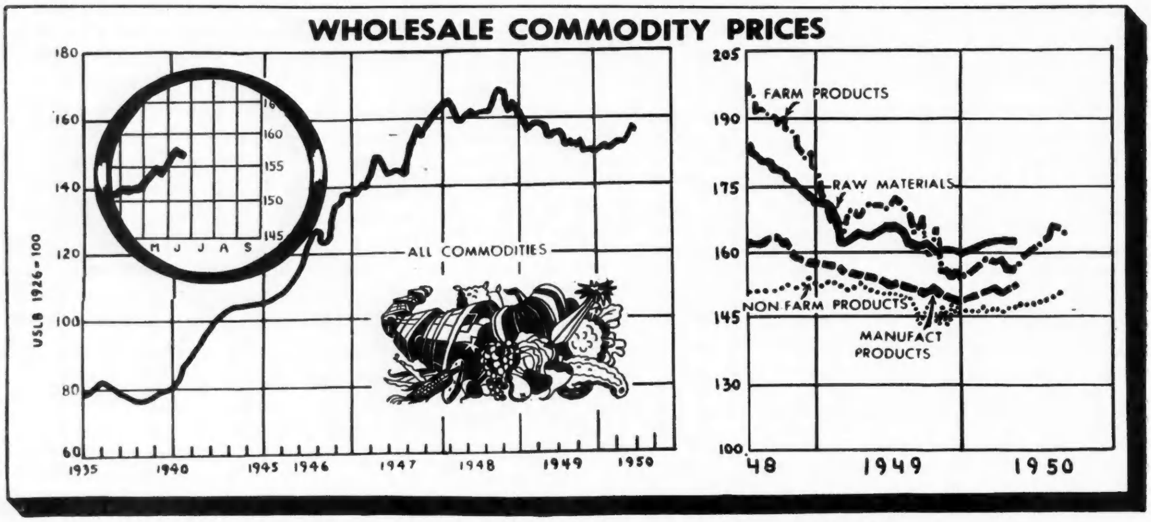
No. of Issues (1925 Close—100)	1950 Indexes High	Low	June 9	June 16
325 COMBINED AVERAGE	153.3	134.7	151.8	149.2
4 Agricultural Implements	207.5	188.5	201.1	197.0
10 Aircraft (1927 Cl.—100)	238.8	170.8	216.6	213.5
6 Air Lines (1934 Cl.—100)	527.1	451.7	481.2	469.8
7 Amusement	104.2	83.2	85.8	83.2a
10 Automobile Accessories	230.4	195.6	230.4C	223.4
12 Automobiles	36.0	28.5	35.7	35.0
3 Baking (1926 Cl.—100)	23.3	19.8	20.2	19.9
3 Business Machines	276.5	253.4	263.0	257.2
2 Bus Lines (1926 Cl.—100)	176.6	153.0	167.0	162.4
5 Chemicals	304.2	256.4	304.2T	291.5
3 Coal Mining	14.3	11.4	11.9	11.4a
4 Communication	61.6	41.9	56.5	55.9
9 Construction	64.9	61.0	64.3	62.8
7 Containers	342.1	309.0	336.5	334.6
9 Copper & Brass	100.9	80.3	99.0	95.3
2 Dairy Products	78.3	71.2	75.4	75.2
5 Department Stores	61.5	56.6	60.5	60.3
6 Drug & Toilet Articles	209.5	185.2	203.7	203.5
2 Finance Companies	361.8	319.9	357.3	348.9
7 Food Brands	181.4	174.5	181.4C	177.2
2 Food Stores	108.0	93.4	99.8	100.0
3 Furnishings	80.8	69.0	79.0	75.9
3 Gold Mining	753.5	619.9	624.9	619.9a

(Nov. 14, 1936, Cl.—100)	High	Low	June 9	June 16
100 HIGH PRICED STOCKS	96.03	86.35	96.03D	94.81
100 LOW PRICED STOCKS	183.93	151.88	179.58	174.67
5 Investment Trusts	79.9	71.0	79.9D	79.2
3 Liquor (1927 Cl.—100)	897.6	808.6	824.0	848.3
11 Machinery	165.5	145.4	163.1	157.5
3 Mail Order	119.7	105.4	119.7B	115.2
3 Meat Packing	99.0	85.9	96.5	97.4
12 Metals, Miscellaneous	169.3	139.9	164.1	159.1
4 Paper	47.0	39.5	46.9	46.8
30 Petroleum	287.4	241.8	285.4	280.5
27 Public Utilities	153.7	141.0	149.0	147.9
5 Radio & TV (1927 Cl.—100)	35.3	18.1	32.1	31.6
9 Railroad Equipment	50.7	43.9	47.6	46.0
24 Railroads	26.0	22.3	25.6	25.1
3 Realty	35.9	30.8	35.8	34.9
3 Shipbuilding	160.7	139.7	148.2	144.6
3 Soft Drinks	391.6	338.2	369.0	356.5
15 Steel & Iron	120.3	96.1	120.3B	119.9
2 Sugar	53.9	49.0	51.5	51.4
2 Sulphur	352.1	319.5	324.5	339.4
5 Textiles	140.2	119.9	140.2B	140.1
3 Tires & Rubber	40.6	32.0	39.6	38.8
6 Tobacco	88.2	81.5	85.9	84.3
2 Variety Stores	352.3	337.5	345.4	337.8
19 Unclassified (1949 Cl.—100)	110.0	100.0	109.0	107.5

'New HIGH since: B—1948; C—1947; D—1946; T—1929. a—New LOW this year.

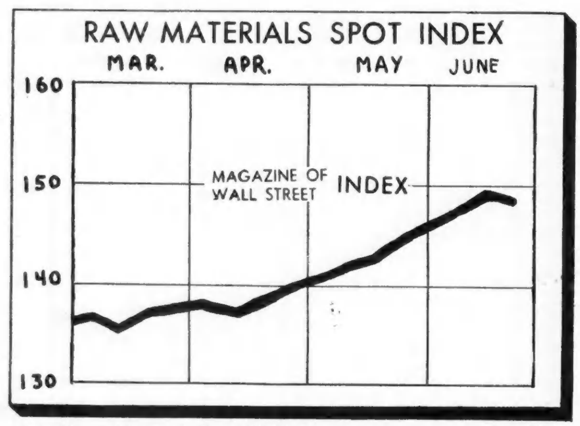
Trend of Commodities

After rising to new highs in over a year, commodity prices turned reactionary, with futures closing down on the fortnight ended June 16, though spot prices retained part of their earlier gains. Wool prices declined along with most other commodities; but a woolen goods plant in New Hampshire, employing 500 workers, is planning to shut down because of high prices. The owner states frankly that "foreign competition has nothing to do with our decision to close." Heavy selling in cottonseed oil futures was touched off by Government offerings from surplus stocks, recent cuts in shortening prices and slow foreign demand for fats and oils. Wholesale prices for pepper continued to decline in the wake of falling quotations in India and Indonesia. Coffee weakened following a demand by a Senate Agriculture subcommittee that the New York Coffee and Sugar Exchange discontinue its present coffee futures contracts, and charges that foreign coffee interests are withholding stocks from trade channels. In raising the familiar political bugaboo of "speculative greed," the Committee chooses to ignore the hard economic facts that Brazil now has a third fewer coffee trees than 15 years ago; that world demand for coffee has risen 50% since pre-war days; and that it takes about five years for a young coffee tree to mature. The Agriculture Department forecasts that this season's combined winter and spring wheat crop will be only 945 million bushels—smallest in 7 years; but a 450 million bushels carryover from last year assures ample supplies. Virtually all of the country's principal crops will be smaller than last year's, except rye, lemons and eggs. Only half as many oranges and tangerines may be picked this year as a year ago; but the yield would still be 10% above the ten-year average.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — Agust, 1939, equals 100

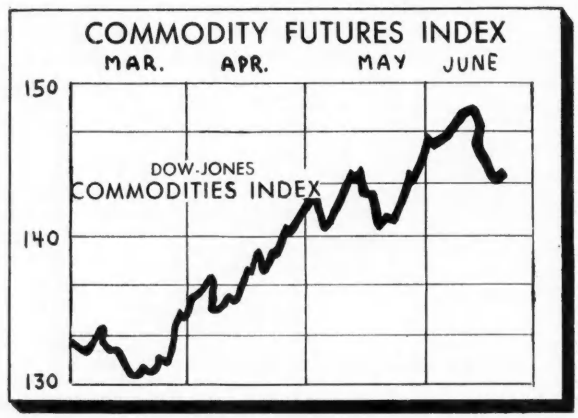
	Date June 19	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	264.0	268.3	260.9	246.0	247.3	231.0	156.9
11 Imported Commodities	264.3	269.6	260.5	249.0	255.2	236.2	157.3
17 Domestic Commodities	263.8	267.4	261.1	244.5	242.2	227.7	156.6
7 Domestic Agriculture	326.6	329.9	326.1	302.9	298.6	294.4	163.9
12 Foodstuffs	327.6	336.6	331.3	305.8	305.2	278.1	169.2
16 Raw Industrials	240.5	240.6	230.4	219.1	226.6	209.7	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1950	1949	1947	1945	1941	1939	1938	1937
High	149.9	161.5	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.2	134.9	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1950	1949	1947	1945	1941	1939	1938	1937
High	148.06	139.28	175.65	106.41	84.60	64.67	54.95	82.44
Low	131.21	122.45	117.14	93.90	55.45	46.59	45.03	52.03

Keeping Abreast of Industrial and Company News

In the very near future, **Dow Chemical Company** will start construction of a large new facility at the Texas Division in Freeport, Texas. Involving an outlay of $30 million, this program will largely increase the company's output of styrene, from which Dow's plastic, Styron, is made, and of vinyl and vinylidene chloride used in the manufacture of saran. Additionally, an increased output of glycols and ethelene will result. The decision to expand on such a substantial scale was influenced by a clearly evident growing demand for the important plastics made from all these basic materials by Dow Chemical.

National Safety Council figures recently released indicate that **Trans World Airlines** completed 1949 with the greatest unbroken passenger-mile safety record of any United States airline, domestic or international. TWA's record of 3.44 billion passenger miles without a passenger or crew fatality was 67% better than the second best airline among those listed as having had a completely safe record last year.

American Airlines, although failing to complete 1949 without a fatal accident, set a new all-time record by flying 4.47 billion passenger miles between December 28, 1946, and November 29, 1949, when its record was broken. It is notable that no less than 35 domestic, territorial or overseas air carriers, flying scheduled passenger runs, went through the entire year 1949 without fatalities, accumulating a total of almost 6 billion passenger-miles. This strongly attests to the efficiency of safety precautions continually undertaken by our major airlines.

Accident prevention by industrial concerns, also, has made surprising progress through the use of protective devices and wholehearted cooperation by management and employees On May 1, for example, one of the plants operated by a subsidiary of **Scott Paper Company** celebrated its 1000th consecutive day without even a lost-time accident. This perfect performance, heading the outstanding safety record of all Scott plants, made the unit a leader in the company's safety contests for both 1948 and 1949.

In an interesting transaction, **M. A. Hanna Company** has acquired a substantial interest in General Reinsurance Corporation. Coincidentally with the deal, Carl N. Osborne, vice president and treasurer of Hanna, was elected a director in the insurance company. The shares acquired were in part the last of those formerly held by the Equity Corporation. Largest ownership in General Reinsurance Corporation is held by the Mellon interests of Pittsburgh, as a result of merger with Mellon Indemnity Corporation five years ago. Consolidated admitted assets of General Reinsurance at the close of 1949 were approximatelay $69 million.

The new **National Dairy Products** research laboratories, one of the largest establishments in the country devoted to the science of food and nutrition, has just been dedicated at Oakdale, Long Island. The new laboratories function in an estate formerly owned by W. K. Vanderbilt, including an elaborate mansion and 90 acres of land. Even the vast stables that used to house more than 100 race horses have been remodeled for research use. A staff of 230 scientists and technologists is now at work on the premises.

On June 15 a new name appeared on the New York Curb Exchange, to replace a long familiar title. The home laundry equipment manufacturer formerly known as Nineteen Hundred Corporation, will now be known as **Whirlpool Corporation** in order to more closely identify the company with its principal product.

Engineers and designers of the **Budd Company** have taken another step to broaden the market potentials of their new single railroad cars operated by diesel power. In contrast to the three passenger cars of this type now in operation, a newcomer will be constructed with a 30-foot railway postoffice and a 32-foot baggage section instead of passenger seats, and will be 73 feet 10 inches in length. Like its counterparts, this RDC-4 will be constructed of stainless steel and powered by two 275 hp diesel engines operating through torque converters. All of the ingenious RDCs can be operated from either end as a single car or as multiples in a train, thus eliminating any turn-around at terminals. The new car will have washrooms in both compartments and there will be a water cooler and hot plate in the postoffice section.

The four lush Astra Dome cars of **General Motors Corporation's** spectacular "Train of Tomorrow" have been sold and are now in pool train service between Portland and Seattle. According to plans, these ultramodern railway units will be interspersed in a lengthy pool train hauled by a powerful diesel locomotive, with the Astra Dome lounge observation car, "Moon Glow", bringing up the rear. Aside from the four glorified cars on the train, there will be three baggage, mail and express cars, probably six standard 48-seat coaches, a parlor car and the through Chicago-Seattle sleeper.

About forty representatives of public and private hydro-electric utilities recently had their first view of a newly designed combined pump-turbine produced by **Allis-Chalmers Manufacturing Company.** For the first time now it should be economically feasible to pump water in off-peak periods from a low level to a high level reservoir, and when needed, to reverse the flow to generate electric power. By this manner a utility can utilize equipment efficiently for twenty-four hours a day. Rotated in one direction, the equip-

ment is a centrifugal pump; reversed it functions as a hydraulic turbine.

No better illustration of the continued insistent demand for passenger automobiles can probably be found than the experience of Nash Motors Division of **Nash Kelvinator Corporation** in selling both new cars and trade-ins. Sales of new cars in the month of May reached 19,684 units, a gain of 100.4% over the previous May. Another and equally surprising record was established in the disposal of used cars, their number increasing by 88% in the first five months of 1950 compared with a year earlier.

A feature of the Chicago Fair in June has been an elaborate exhibit by **Westinghouse Electric Corporation** in the form of an ultra-modern home, completely staffed with "electrical servants". These devices do all of the housewife's cleaning, cooking, canning and washing. The three-bedroom, one story house features the latest in modern illumination and the electrical appliances include refrigerator, range, automatic washer and dryer, water heater, home freezer, dishwasher, garbage disposal unit, roaster, food mixer, vacuum cleaner and half a dozen others.

What has been described as "the answer to a duffer's prayer" has been developed by researchers of **B. F. Goodrich Company.** This is an "atomic" golf ball that cannot be lost. Minute quantities of radioactive materials embedded under the cover of the ball make it possible for a caddy carrying a small, portable geiger counter to quickly locate a ball lost in dense woods or deep rough. This new development is still in the experimental stage and no immediate sale of the balls is contemplated at this time. The market potentials, though, may be interesting since about 25 million golf balls are sold each year, of which about 50% are sooner or later lost by the players.

When the British branch of **Parke, Davis & Company** celebrates its 60th anniversary early next year, the more than one thousand employees will be proudly scanning a recently completed new plant on the premises. This new facility to be constructed in the current year will be used for the production of Chloromycetin, the company's world famous antibiotic. The output will go mainly to all countries comprising the sterling area. A well equipped research laboratory will be established in connection with the project.

The continuous "Let's Explore Ohio" program of the **Standard Oil Company (Ohio)** will enter an additional medium on June 28, when a series of these programs makes its initial appearance on eight Ohio television stations. For 13 weeks, each telecast program will appear on a once-a-week basis. For some time past, the company has been active in several ways to promote interest in the numerous travel spots in Ohio. Now scenes and historical landmarks will be recorded by motion picture films and reprints will be shipped to the various TV stations for showing, with appropriate comments for the viewers. Standard Oil is no stranger to television, as it has been among the first commercial sponsors of orchestral, civic and sporting programs.

Actively recognizing private flying as big business, **Gulf Oil Corporation** has announced plans to raise the airport servicing of private planes to a basis comparable to the best enjoyed by American motorists. From cleaning the windshield, to checking the tires, brushing out the cockpit and emptying the ash trays, no details will be omitted. Even smudges will be wiped from the fuselages, while airport dealers will be urged to uniform their employees, guide planes with standard signals to the servicing areas and give the passengers a hand with their baggage.

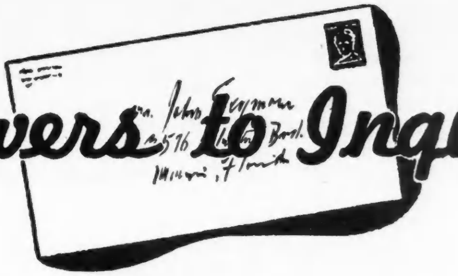
The annoyance of a fogged mirror in family bathrooms may soon be dispelled by use of a new appliance designed by **United States Rubber Company** for the Charles Parker Company of Meridan, Connecticut. The mirror utilizes a heater made of electrically conductive rubber mounted in the rear, and applied to a wall-type medicine cabinet which also contains built-in fluorescent lights. The heater is turned on and off merely by the touch of a small switch, and the fog rapidly disappears.

Philco Corporation spared no effort or expense to entertain its 5000 dealers and 1000 distributors when it held the largest convention in the history of the appliance industry late in June at Atlantic City. Among other shows, the company imported from Philadelphia the famed Mummers Parade, normally seen only on New Years Day in the home city. A water carnival with world champion high divers and swimmers, together with a bathing beauty pageant added to the attractions, with a famous band and scores of stars imparting a glamorous touch to the convention.

The 1950 expansion program of **Union Carbide and Carbon Corporation** will include a new plant at South Charleston, West Virginia, to produce Vinylite dispersion resin VYNV.3. For the past two years this improved product has been made on a pilot plant scale to demonstrate its value in making better plastisols that speed up production of numerous items essential to modern living and industry. The new material has amply demonstrated its efficiency in this respect. Its development should greatly benefit manufacturers of a long list of products, varying from dolls to ladies overshoes, draperies to wallpaper, flooring to shelf paper, refrigerator shelves to electrical wire insulations.

A novel employment of television will soon bring the latest surgical and clinical procedures to Latin-American medical men, according to an announcement by **General Electric Company.** In cooperation with E. R. Squibb & Sons International Corporation, showings of actual surgical and clinical operations will be made by TV to large medical gatherings in five of the southern countries, Puerto Rico, Brazil, Argentina, Venezuela and Mexico. Four engineers from Electronics Park will accompany the GE equipment to a New York rehearsal as well as on the long trip scheduled.

A reduction of up to fifty percent in the patent royalty rates of the **Radio Corporation of America** has been announced by Brig. General David Sarnoff, chairman of the board. The reduced rates apply to radio and television receivers, transmitters and tubes, as well as to electrical phonographs. This is the third time since 1932 that the royalty rates have been reduced, but the former reductions were very moderate compared with the latest one. The company feels that inventions and new developments should be continually reduced in cost for the benefit of industry and the public, especially as relates to television that has attained a growth and public acceptance unparalleled in the history of our economy



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Commercial Solvents Corporation

Please explain the reason for the decline in net profit of Commercial Solvents Corporation last year and what new products is the company working on now that may increase earnings?

M. K., Peekskill, New York

Commercial Solvents Corporation reported for the calendar year 1949 consolidated net earnings of $3,364,650, equal to $1.28 a share, compared with $5,443,237, or $2.10 a share in 1948.

Sales during 1949 were $33,347,682, compared with $41,533,864 during 1948. The corporation sold a greater quantity of goods in 1949 than in 1948, but a substantial decline in prices of a number of products caused a decrease in the dollar volume of sales with a consequent reduction in earnings.

The major portion of the corporation's authorized expansion program has been completed, and net current assets increased from $13,159,159 in 1948 to $13,496,779 in 1949.

The additions to the research laboratories at Terre Haute, Indiana, were completed at a cost of $1,600,000.

At a cost of $2 million, an enlarged plant for the manufacture of Vitamin feed supplements at Peoria was completed last September. Now under construction is an antibiotic plant to cost $670,000, and a unit to produce the insecticide, Lindane, which will require $454,000. Both units are to be in operation late this year.

New products scheduled for marketing during 1950 include an important ingredient for dairy and cattle feeds; the purified form of the insecticide known as Lindane; insecticides made from the nitroparaffins; new plasticizers and amines; a new antibiotic; combinations and new dosage forms of various antibiotics; several pharmaceutical specialties; and at least two new items which will be added to the Nor-Way line of automotive chemicals.

Net income for the first quarter of 1950 amounted to $675,620, equal to 26c per share, compared with first quarter of 1949 net profit of $861,957, equal to 33c per share.

Dividends in 1949 amounted to $1.50 per share and 50c has been declared thus far this year.

Servel, Inc.

Please furnish recent sales and net profits of Servel, Inc.

B. G., Elkhart, Indiana

Sales of Servel, Inc., rose 83% in the three months ended April 30, 1950, second quarter of its fiscal year, and all divisions of the company operated at a profit throughout the period for the first time in recent years.

Sales totaled $15,178,853 for the quarter, compared with $8,300,987 in the second quarter in 1949. For the six months ended April 30, 1950, sales amounted to $23,254,613, compared with $16,920,092 in the comparable period of the preceding year.

Results of recent operations indicate a favorable trend despite heavy, extraordinary costs forced on the company by the steel and coal strikes.

Net profits of the corporation were $856,468 for the three months ended April 30, 1950, or 46c a share, compared with a net loss of $869,988 in the same period a year ago. For the six months profits were $122,774, compared with $1,299,420 loss in the first half of 1949 fiscal year.

Shipments of gas refrigerators, the company's major product, at its Evansville, Indiana, plant were doubled in the second quarter compared with shipments in the same quarter a year ago. Volume of water heaters were also approximately doubled. The Electric Refrigeration division sales increased two and one-half times, and shipments of "All Year" air-conditioners were almost double.

Sales of gas refrigerators for the first six months of this year represented 73% of the total dollar volume, compared to 77% for the first six months last year.

The Justice Department filed suit in U. S. District Court at Philadelphia in June against Servel, Inc., charging the company with monopoly in the manufacture and distribution of gas refrigerators in the United States.

The complaint alleges that Servel has acquired a complete monoply through the exchange of patent rights with a Swedish corporation. The latter controls exclusive patent rights on gas refrigerators in the United States, Canada and Cuba, the Government charged.

Servel has denied the Government's charge.

American Natural Gas Company

As an old subscriber to your publication, I would appreciate receiving pertinent data on American Natural Gas Company, formerly the American Light & Traction Company.

P. F., Roanoke, Va.

Consolidated earnings applicable to the common stock of American Natural Gas were $5,301,675 in 1949, compared with $1,843,797 in 1948. These earnings were $1.74

per share on the 3,044,855 shares of the company outstanding at the end of 1949, compared with earnings during 1948 of 67c per share on the 2,768,050 shares then outstanding. Adjusted to present capitalization the 1948 earnings would have equaled 61c per common share.

The corporation's operating subsidiaries expect to spend approximately $100 million on new construction in 1950 and 1951.

The expenditure of this amount was expected to be approved at the annual meeting of the Federal Power Commission on company's application to increase American's delivery capacity from 56 billion cubic feet to 100 billion cubic feet annually.

The company expects to obtain the new construction fund as follows: $32 million from internal sources, $50 million to $52 million from sale of bonds, and between $18 million and $20 million from the sale of preferred stock of subsidiary companies or the common stock of the parent company.

The president recently stated that the present $1.20 annual dividend was too low in relation to the price of stock and indicated payments would be increased when the company's cash position improved.

Natural gas reserves of the company approximate 4.4 trillion cubic feet, which will supply company's pipe lines with 343 million cubic feet per day up to 24 years, with daily deliveries in diminishing amounts thereafter.

Consolidated earnings this year are expected to show an increase over 1949 results.

MacAndrews & Forbes Company

I hear that MacAndrews & Forbes Company has a stable earning record. Please advise on products company produces, recent earnings and dividends.
M. J., Skillman, New Jersey

MacAndrews & Forbes has for many years specialized in the importation and processing of licorice roots, establishing a dominant position as a supplier of licorice extracts to the tobacco and candy industries. Derivatives from these same roots are sold as fire-extinguishing chemicals and the company owns a substantial interest in American - LaFrance - Foamite Corporation. Fibrous residues are used for the manufacture of insulating and boxboards.

Net earnings of the company and its wholly-owned subsidiaries available for the common stock for the year 1949, after deducting all charges, including depreciation, all taxes and dividends on preferred stock, amounted to $1,106,383 equal to $3.64 per share compared with earnings of $1,119,185 equal to $3.68 per share in 1948. Dividends aggregating $3.00 per share on the common stock were declared in 1949 and these consisted of three quarterly dividends of 50c per share each and a fourth quarter dividend of $1.50 per share paid in January, 1950. Regular 50c quarterly payments have been declared thus far this year and a year-end extra is likely. Consecutive dividend payments have been made since 1903.

Net sales for the fiscal year ended December 31, 1949 amounted to $12,238,843 and this compares with net sales of $13,493,461 in 1948.

As of December 31, 1949, total current assets were $8,271,442 and total current liabilities were $2,283,772.

This company has proven to be a stable earner over a period of years.

Net profit for the first three months of the current fiscal year to March 31, 1950 amounted to $287,516, equal to 85c a share and this compares with the corresponding period of 1949 net profit of $297,665, equal to 86c per share.

H. L. Green Company, Inc.

Please report recent annual sales and earnings of H. L. Green Company, Inc., and financial position.
E. C., Springfield, Mass.

H. L. Green Company, Inc., operated 222 variety stores on January 31, 1950, of which 144 were in the United States and 78 in Canada. During the last year new stores were opened in Lancaster, McKeesport and Hollidaysburg, Pennsylvania, Uhrichsville, Ohio, Washington, D. C. and San Antonio, Texas. Several of the older stores were also remodeled and enlarged.

Total sales for the fiscal year ended January 31, 1950, were $98,733,224 as compared with $101,594,659 for the previous year and this represents a decrease of 2.8%. There was no decline in the quantity or number of items of merchandise sold during the year in comparable stores. The decrease in dollar sales was basically the result of lower retail selling prices on equivalent items of merchandise.

Net earnings, after provision for United States and Canadian income taxes and provision for loss of $121,425 on conversion of Canadian earnings, were $4,949,549 or $4.14. Before such provision for loss on conversion, net earnings were $5,070,974 or $4.24 per share, which compares with net earnings of $5,942,046 or $4.97 per share reported in the preceding year. The decrease in net earnings in the past year was the result of higher operating costs. The most important item in this connection was that of payroll costs. During the fiscal year four quarterly dividends of 50c and an extra year-end dividend of 50c, or a total of $2.50 per share was paid and this is the same amount that was disbursed during the preceding fiscal year.

Balance sheet as of January 31, 1950, showed total current assets of $22,326,747 including $8,232,982, cash and Government obligations and total current liabilities of $4,569,322. Total capital stock and surplus at the close of the fiscal year, $33,999,074, was equivalent to a book value of $28.42 per share on the outstanding common stock.

Sales for the first three months of the current fiscal year to April 30, 1950 amounted to $20,808,758 and net profit of $647,428, equal to 54c per common share. This compares with comparable quarter in the preceding year sales of $21,251,822, net profit of $762,848, equal to 64c per share. Regular 50c quarterly dividend may again be supplemented by a 50c extra this year.

Capital Airlines, Inc.

Please furnish data as to whether Capital Airlines is operating at a profit or not and company's principal source of revenue.
E. L., Spokane, Washington

Capital Airlines showed a net profit after taxes from operations for 1949 of $834,178 or $1.74 per share of common stock. In addition, a profit of $847,493 was realized through the purchase of debentures for sinking fund payments. The net income transferred to earned surplus at the close of the year was, therefore, $1,681,671.

Capital's 1949 operating revenue was the highest in its history —$26,905,836, an increase of $3,580,714 or 15% over 1948. This increase was accomplished through substantial gains in passenger and freight revenue while the revenue from airmail decreased.

Passenger traffic continued to

(*Please turn to page* 391)

What Business-Economic Implications in Coming Fifth Round Wage Hike?

(*Continued from page* 358)

It certainly is a lesson to those unions which still believe in the outmoded and destructive practice of featherbedding, of spread-the-work and made-work policies which are merely road-blocks to better business, increased employment and ultimately higher wages.

In abandonment of such an attitude, plus the promise of five years of relief from threats of strikes and acrimonious contract haggling, lies the great importance of the GM agreement. Should its basic principle be adopted in other fifth round contracts, it certainly would be an economic blessing, since it will reflect the realization that perennial strife will only destroy economic stability.

The most contentious question in connection with the GM contract, namely how can small business meet the threat of demands for matching benefits, has a ready answer from the GM president Wilson. He says that if he were a small businessman, he would just follow it, pointing out that small business has followed big business with liberal employment contracts, and in many instances went beyond that point, and prospered. Where practicable, this formula is certainly worth a try but in our view, it would be a mistake to generalize, particularly in the case of businesses still in the throes of postwar adjustment. They are hardly in a position to foresee what wages they can afford to pay in the next five years. In such cases, long term contracts will be more difficult to agree upon.

Answers to Inquiries

(*Continued from page* 390)

represent the prime revenue source of company's business when it produced $19,810,438 in 1949, representing an increase of 23% or $3,688,843 over passenger revenue in 1948.

The transportation of air cargo continued its growth trend when revenues reach a high of $2,105,673, representing an increase of 21% in cargo revenues over the 1948 period.

While non-mail revenues reached a new high, due to the gain in passenger and freight revenues, a reduction of $337,646 in airmail pay was recorded in 1949. This substantial reduction results from Capital's basic airmail rate structure which incorporates a sliding scale of formula lowering airmail payments as greater acceptance of company's service increases the passenger load factor. Ton-miles of airmail carried showed an increase of 182,424 which decreased the ton-mile cost of airmail service to the Government by 23%.

Total revenues for the first quarter of current fiscal year to March 31, 1950 amounted to $5,919,605 and this showed a net loss of $151,902, equal to deficit of 30c a share.

Net working capital as of March 31, 1950 was $1,773,503. No dividends have been paid since August 1945.

Re-Appraising the Coppers Under Improved Outlook

(*Continued from page* 377)

definitely announced, the management has estimated them at $1.54 per share compared with $1.50 a year earlier. This attests to efficiently conducted operations, considering the spread in copper price between this year and last, and creates optimism over results in succeeding further quarters.

Over the longer term, the already vast activities of Kennecott will expand still more as large scale development of gold mining properties in South Africa progresses and a two-thirds interest in the promising Quebec Iron and Titanium Corporation begins to bear fruit. An unusually strong treasury position will enable the company to finance these projects very comfortably, and should also prove a stabilizing influence on dividends. With an annual copper productive capacity exceeding one billion pounds, the world's largest, and with a firmly established trade position enjoyed by its fabricating subsidiary, Chase Copper & Brass, Kennecott holds an enviable position in the industry.

American Smelting and Refining Company appears on the road to substantial recovery from unfavorable conditions that prevailed from early 1949 through March 31, 1950. Absorption of $6 million inventory losses last year partly accounted for a decline in earnings to $8.22 from $13.47 in 1948. In the first quarter of 1950, operations resulted in net equal to $1.69 per share compared with $2.80 in the preceding year, but allowance for inventory losses equal to 86 a share reduced the final showing to 84 cents. The company's earnings picture has now brightened progressively since March due to the upturn in all non-ferrous metal quotations, and heavy demand makes possible a rapid disposition of excess inventories at favorable prices. An impregnable financial position seems to assure continuance of dividends at 75 cents a share quarterly, with a liberal year-end extra likely.

How Long a Boom?

Granted that the copper industry is highly sensitive to cyclical changes in industrial activity and that the current boom cannot last indefinitely, the intermediate outlook for this group offers considerable encouragement. Since the current consensus of economic opinion points to no more than a moderate recession in demand for automobiles and new construction in the next few years, it seems probable that prices for copper may remain more stable than many might assume. It may not be widely recognized that the automotive industry alone in 1950 may use as much as 235,000 tons of copper, or almost a quarter of domestic production. Demand from this and other directions could recede somewhat without too serious a threat to the copper price structure.

Early in the current year, the action of the copper stocks was rather disappointing in relation to the general market, but in recent weeks the improved outlook for the industry has been reflected by a stronger tone in copper share prices. Even so, it appears doubtful that the price of the better grade copper grade equities has adequately discounted the indicated brighter potentials of the group for quite a stretch ahead. While high yields and relatively low price-earnings ratios normally are characteristic of copper shares, because so many marginal or high-cost operators experience very erratic earnings, it hardly seems reasonable in the case of the leading companies whose average

results should prove very satisfactory. The shares of such concerns as Anaconda, Kennecott, Phelps Dodge, American Smelting & Refining offer attractive yields and are not without promising appreciation potentials.

For Profit and Income

(*Continued from page* 381)

price of 36½, the yield is about 6.6%. Earnings were $3.52 a share last year and probably will be nearer $4 this year. Beneficial earned $2.77 a share last year, and should approximate or slightly exceed $3 this year. It paid stock dividends totalling 12½% last year, and is on a regular $1.50 dividend rate. The stock has reacted a couple of points to 24⅜ because of the calling of the convertible preferred, which resulted in conversions and some sales of the common thus acquired. The yield on the latter from the regular rate is 6.1%; but even a 25-cent year-end extra, justified by earnings, would make the yield above 7%. The stock is moderately cheaper on earnings than Household Finance. Both have paid unbroken dividends since incorporation. Under the test of a deep depression year like 1932, neither cut dividends.

General Motors—A Study of Intrinsic Values

(*Continued from page* 371)

ended, GM factories may have produced as many as 900,000 units, or an annual rate of more than 3.5 million vehicles—which would represent a 30 per cent boost over 1949 totals.

Although it is admitted that the high rate of operations reached in June quarter is unlikely to be maintained, because of industry-wide vacations in July and preparations for new models in the fourth quarter, nevertheless all indications now point to 1950 volume surpassing last year's fancy figures. Profit margins may have been hurt slightly in the last month or two because of necessity for paying premiums on urgently needed steel, but efficiency appears to have improved through greater utilization of plant and progress with mechanization. Accordingly, tentative estimates suggest that June quarter earnings may have reached an all-time record for any three months.

Estimates intimate that net profit in the second quarter may have ranged well above $5 a share, which would compare with $4.76 in the March quarter and with $3.72 a share in the second quarter of 1949. At such a rate it is readily understood why management may have had some qualms about the prospect of reporting net profit for 1950 in the range of $18 to $20 a share.

Moreover, such earnings would dictate increased dividend rates which might seem excessive in some quarters if expressed in too many dollars per share. General Motors always has believed in a liberal dividend policy, as its chairman, Alfred P. Sloan Jr., has stressed on more than one occasion and as is pointed out in the company's latest annual statement. The corporation's prewar dividend record was notably generous.

Heavy Capital Requirements

Sharply increased capital requirements in recent years necessitated withholding a larger share of earnings than usual. Factors responsible for large plant expenditures included postwar inflationary forces, need for replacement and modernization of manufacturing facilities to improve efficiency and expansion to fill demands attributable to suspension of motor car production during the war. Expenditures for plants, equipment, etc., in the last four years exceeded depreciation and amortization funds by almost $443 million, yet net working capital was enlarged by about $491 million.

To supply these large capital requirements, a total of $643 million, or 45 per cent of earnings available for common stockholders, was reinvested in the business in the four postwar years. Preferred stockholders invested an additional $98 million, so that stockholders' equity was expanded by about $741 million. Reserves set up to improve net working capital also were available. As the need for new capital diminished last year, a $125 million note issue was prepaid, so that at the end of 1949 the corporation had no long-term debt outstanding.

A review such as this hardly would be complete without reference to taxes paid by General Motors, since these figures shed additional light on the corporation's importance as a source of Federal revenues. Corporate income taxes paid to the United States and foreign governments last year totaled $468.4 million. Other taxes, including state and local levies together with the corporation's share of social security taxes, took an additional $112 million, making approximately 10 cents for each dollar of sales for the year. When sales and excise taxes of $299 million are included, the corporation's contribution to Government coffers come to $879 million.

A primary objective of a stock split, as already cited, is wider distribution of stock. It has been demonstrated that many more investors will buy stocks if they can obtain them at prices in the lower or medium range. There is little doubt, as a matter of record, that more General Motors shares will be purchased and put into safety deposit boxes if the shares are selling around $50 than would be the case if the market quotations prevailed around $100 a share.

Big Stockholder List

About 434,000 names were on the company's records as stockholders at the end of last year. Of these, 82 per cent were individuals, the company's records show. Others included charitable organizations, insurance companies, churches, educational institutions, etc. One of the large stockholders is E. I. duPont, deNemours & Co., with 10 million shares. Indicative of wide distribution among investors of modest means is the fact that more than half of owners hold twenty shares or fewer. Moreover, about 56 per cent of individual investors are women.

Reverting to our original thesis, in summing up this discussion—namely, that in its proper perspective, a two-fold increase in General Motors' capitalization scarcely should seem extraordinary—it is well to remember that vast economic and financial changes have occurred since 1929. Even in the last decade, the number of persons gainfully employed has expanded almost 30 per cent and national income has increased about 149 per cent. Money no longer buys as much as it form-

erly did, as exemplified in the fact that wage rates have jumped some 152 per cent since before the war. Strictly from the standpoint of what has taken place since the previous split, therefore, and that includes the company's phenomenal growth, there is no logical reason why General Motors should not have a capitalization of 88 million shares or more.

As to market appraisal of the stock, the latter at current price of around 96 discounts not anywhere adequately either current earning power or intrinsic values. The latter of course are seldom fully reflected in stock market valuations if only because it is difficult to put a price on them. What counts most is earning power—minus non-recurring aspects which undoubtedly exist in this case since no-one expects GM earnings to continue at current peak rates for any length of time. But even on basis of prospective average long term earning power, the stock in our opinion does not appear overvalued.

Paradoxes in Our Anti-Trust Policy

(*Continued from page* 363)

bigness merely because of bigness is not only unfair but extremely shortsighted. The Sherman Act was not designed to punish dynamic progress, and to reduce competition to a common level of mediocrity. The latest anti-trust trends certainly raise the question whether the consumer is expected to support inefficiency, in terms of higher product prices, merely to underwrite a hazy official concept of "how big is too big?" It is certainly odd, in our present monopoly notions, that the more efficient a company becomes and thereby extends its business, the further it is considered to have gone along the way of monopoly.

This has had the strange result that when any particular company grows bigger than any other or, in some cases, as large or larger than all the others in its field combined, the public actually could not get the benefit of its efficiency, in terms of lower prices, nor could labor—in terms of higher wages. If the big unit cuts prices, its share of business increases and the monopoly charge is shouted louder than ever. If it raises wages, it places an added burden on its less efficient competitors. This poses a difficult question but to reduce efficient big business to common mediocrity in the search for an answer is obviously not a fair or intelligent solution.

If, as Secretary of Commerce Sawyer recently remarked, the basic job of our competitive business system is to provide more and better goods and services for all consumers at prices they can afford to pay, the reduction or destruction of big business—merely because it is big and efficient—will make this an elusive goal. For if the drive to limit corporate size is successful, it will mean a blow to initiative as damaging at the company level as the union drive against incentive plans has been successful in curbing efforts and ambition among individual workers.

Broadly speaking, what's needed is not a tightening of anti-trust laws, nor a loosening of them as far as their original—and meanwhile greatly distorted—intent is concerned, but a complete redefinition of lawful business conduct. To quote Mr. Lowell Mason again: "It is time that the Government and business stopped playing cops and robbers with each other."

Political . . . Economic News Around the World

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owned by the Texas Corp. and Standard Oil of California), which agreed to accept 100 per cent payment in pound sterling for about one third of the additional gasoline requirements (the other two-thirds are to be supplied by the British companies). The payment in sterling, estimated at $10 to $12 million, is to be "spent as fast as possible within the sterling area" to buy or construct oil tankers, pipeline pumps, drilling machinery, cloth, and even "whiskey for the boys in the jungle".

Although the agreement is only temporary and does not by any means represent the solution of the outstanding Anglo-American oil differences, it shows that even a little good will can work wonders. On one hand, the British

Government recognized that the American oil companies have a legitimate interest in the sterling area market even though the sterling area oil could make Great Britain self-sufficient before long. On the other, the British Treasury stands to gain some $70 million in increased gasoline and automobile taxes, and what's more, the Labor Government has gained votes. Most important however, the deal shows that where trade can expand, seemingly opposing interests can be reconciled to everyone's satisfaction.

The Revitalized Machine Tool Industry

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United States with an age of more than 20 years. This is more than the aggregate of all machine tools being used in the automobile, electric and farm equipment industries.

From another widely recognized source, the *American Machinist*, a survey shows that 43% of all machine tools in this country are at least ten years old, while 21% have been in use for more than twenty years. Machine tool builders, therefore, are campaigning aggressively to convince their largest customers—not only the automobile, steel and electrical equipment, but the railway equipment, aircraft, shipping and construction industries as well—that new machines will reduce costs and yield better profits.

Since the end of the war the trend of modern industrial processes has favored machine tools, but a decisive lag of buying occurred because of surpluses, largely from Government-owned stockpiles. But more recently the lull in new business had ended because of fresh and active efforts to lower manufacturing expenses as an offset to higher labor costs, the development of new products and improvement of quality, expansion of existing plant facilities, and finally, the enforced replacement of worn-out or obsolete equipment.

When general business conditions are favorable, as at present, replacement buying gains in importance; when activity diminishes, the emphasis is on special, cost-saving machines. Today, both factors are operating. In the broader sense, machine tool purchases, like those of all other new machinery, fluctuate in accordance with the supply of capital funds and the anticipated rate of industrial production.

As already shown, industry volume is increasing. This is true not only among New England tool makers, comprising about 30% of the industry, but also elsewhere in the United States.

However, except in a few highly specialized plants, operations remain far below capacity. Still, new business has developed to a point where even corporations which were struggling to show black ink figures in 1949 are assured of profitable operations for 1950.

The outlook for some of the more important machine tool companies shapes up about as follows:

BULLARD COMPANY: This company has probably experienced its best first half-year since the war. This is largely a reflection of accelerated production throughout the automobile industry. Profits should run well ahead of the $1.89 a share reported in 1949, and 1950 dividends should equal the $1.75 paid last year.

CINCINNATI MILLING MACHINE: Serving all important customer industries, in addition to the automobile trade, this company outranks all other units from standpoint of trade dominance. An outstanding characteristic is financial strength, with cash equal to 4½ times all current liabilities at the end of 1949. Profit trend in 1950 is upward.

MONARCH MACHINE TOOL: Always liberal in point of dividend payments which have been made, uninterruptedly, since 1913. By about mid-May, 1950, unfilled orders are reported to have expanded nearly 50% since January 1.

NATIONAL ACME: Well diversified as to output, the company is benefitting, chiefly, from the high production level in the automotive industry. Present liberal $2 annual dividend seems secure for the medium term at least.

NILES-BEMENT-POND: Annual sales should hold around $21,000,000 in 1950 and dividends will probably be maintained at $0.60 despite some earnings uncertainty caused by importance of foreign business, which has declined.

Companies That Could Pay Higher Dividends

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only 29% in the case of Dow Chemical. The former, as our figures show, has always been more liberal, the latter more on the conservative side, particularly in postwar years when capital needs called for retention of a substantial part of earnings to finance expansion. DuPont, too, expanded on a large scale but managed to do it with less heavy reliance on earnings retention. It must be noted, however, that the prewar ratios of all the companies listed are quite high, but only duPont has maintained a fairly close approach to them throughout the postwar years. A closer reapproach in the case of the others is probable as postwar business settles down to a more normal pattern and expansion needs wane. Such advantages as low wage costs and generally sound finances should aid the trend.

Reflecting traditional stability of earnings, percentages in the drug group for the most part have remained above average. There is every indication that this record will be maintained. In the electrical field, we note considerable variations. General Electric's ratio of 45.8%, while higher than in the preceding year, is still far below the prewar average. Westinghouse Electric's 28.2% is actually less than was distributed in 1948 and ranks among the lowest figures appearing in our tabulation. By way of contrast, Square "D" lifted its ratio from 48% in 1948 to 61.1% in 1949.

Both General Electric and Westinghouse doubtless felt the need of considerable capital not only for expansion but to finance their booming business, hence distributions to stockholders were held to moderate, and in the case of Westinghouse, skimpy levels. The $1.40 per share paid by the latter contrasts with earnings of $4.95 whereas General Electric paid $2 out of $4.36 earned. Both profits and dividends of GE will be higher this year. Westinghouse has raised interim payments from 25c last year to 40c, also portending higher total disbursements, but unless a sizeable extra dividend is declared, or the interim rate raised, the ratio will still remain moderate.

Steel Industry Ratios

The dividend ratios of the steel companies listed reveal a generally conservative dividend policy, U. S. Steel with 41.1% showing the highest figure and Bethlehem with 24.8% the lowest. Since steel company earnings last year have been excellent, higher ratios would seem to have been in order though the industry's capital requirements are well known. Current record operations and earnings should point to more generous disbursements in 1950 despite the cyclical character of the industry which normally precludes disbursement of a high percentage of profits.

Further study of the figures compiled in our tabulation reveals a good many instances of companies which could have paid more, and therefore points out where improvement is likely to be expected. But it also shows up numerous examples where there is little or no cause for complaint.

On the average, it can be said that the 1947-48 percentages may represent the low mark for quite some time to come, and that the improvement in 1949 ratios may be carried further in 1950—with the usual exceptions—, reflecting the gradual uptrend in the portion of net earnings paid out as dividends as earning power under a more normal peace-time pattern tends to stabilize and the need for capital investments lessens.

As I See It!

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who have shelled out billions for British and European economic revival.

In the last analysis, the British attitude shows that socialism does not necessarily promote international integration; in Britain's case it has proved nationalistic, isolationist and autarchic. It is a discouraging but not too startling revelation.

Further Market Readjustment Likely?

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second-half activity. So will revised capital-outlay programs which seem likely to limit the full-year decline in spending for new plants and equipment to about 5%, against more than double that allowed for a few months ago. This implies some year-to-year gain in the second half. An important fourth-quarter let-down in general business, anticipated by some observers earlier, now seems improbable, if not out of the picture. Certainly the full-year outlook for total corporate profits—even if the 41% tax rate is adopted—and for total dividends is excellent. This supports the case for retaining adequately invested positions in selected stocks through a lightening of excessive commitments on future rallies might be prudent in existing circumstances.

—Monday, June 26.